

16th

ANNUAL REPORT
1998-99

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 **HERO
HONDA**



BOARD OF DIRECTORS

Brijmohan Lall Munjal
Chairman and Managing Director

Takehiko Nakajima
Joint Managing Director

Pawan Kant Munjal
Whole-Time Director

Matsuo Yamasaki
Whole-Time Director

Satyanand Munjal
Om Prakash Munjal
S.P. Virmani
M.P. Wadhawan
Directors

O.P. Gupta
T. Fujisaki
Y. Kobayashi
Directors

AUDITORS

A.F. Ferguson & Co.
Chartered Accountants, New Delhi.

BANKERS

Punjab National Bank
The Bank of Tokyo-Mitsubishi Ltd.
Citibank, N.A.
Canara Bank
ANZ Grindlays Bank Plc.
Bank of America NT & SA
Banque Nationale De Paris

ABN Amro Bank
Deutsche Bank
Bank of Baroda
DBS Bank
American Express Bank Ltd.
ICICI Banking Corporation Ltd.
HDFC Bank Ltd.

SENIOR EXECUTIVES

K.K. Agrawal
Ravi Sud

Atul Sobti
K.K. Malhotra

COMPANY SECRETARY

Ilam C. Kamboj

TECHNICAL AND FINANCIAL COLLABORATORS

Honda Motor Co., Ltd.
No. 1-1, 2 Chome,
Minami-aoyama, Minato-ku,
Tokyo 107, Japan

REGISTERED AND CORPORATE OFFICE

34, Community Centre,
Basant Lok, Vasant Vihar,
New Delhi - 110 057.

DHARUHERA PLANT

69 Km. Stone, Delhi-Jaipur Highway
Dharuhera, Distt. Rewari,
Haryana - 121 006

GURGAON PLANT

37 Km. Stone, Delhi-Jaipur Highway
Sector 33-34, Gurgaon,
Haryana - 121 001

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FINANCIAL HIGHLIGHTS

(Rs. in million)

	94-95	95-96	96-97	97-98	98-99
Sales (nos)	183,650	230,164	268,931	407,546	530,545
Growth in Sales (nos) (%)	24.0	23.3	16.8	51.5	30.2
Total Income	4838	6421	7828	11561	15529
Growth in Total income (%)	30.7	32.7	21.9	47.7	34.3
Profit Before Tax	295	419	651	1096	1728
Profit After Tax	195	263	504	767	1214
Share Capital	200	200	200	200	399
Reserves and Surplus	563	762	1192	1870	2609
Total Debt	442	541	1041	878	878
Net Fixed Assets	839	1020	1962	2153	3086
Total Assets	1346	1640	2573	3087	4024
Market Capitalisation	4490	5791	5986	17448	34955
Economic Value Added(EVA)	-5	16	174	324	622
Growth in EVA (%)	78.3	420.0	1,000.1	86.8	91.8
KEY RATIOS					
Long Term Debt/Equity	0.4	0.3	0.6	0.4	0.3
OPBDITA/Total Operating Income**	8.3%	8.4%	11.3%	12.6%	13.5%
Profit After Tax/Total Income	4.0%	4.1%	6.5%	6.6%	7.8%
Return On Equity	28.2%	30.7%	42.9%	44.3%	47.8%
Return On Capital Employed	27.5%	32.1%	35.0%	41.5%	50.7%
EVA/Capital Employed	-0.4%	1.1%	8.2%	11.5%	17.5%
Dividend Per Share (Rs.)	3.0	3.2	3.5	4.0	6.3**
Dividend Payout	25.5%	24.1%	14.6%	11.5%	22.7%
Earnings Per Share (Rs.)	9.8	13.3	25.3	38.4	60.8***
Free Operating Cash Flow Per Share (Rs.)	10.8	14.9	31.8	32.4	78.9***
Market Value/Book Value	5.9	6.1	4.5	8.6	11.9

* OPBDITA = Operating Profit Before Depreciation, Interest, Tax and Amortisation

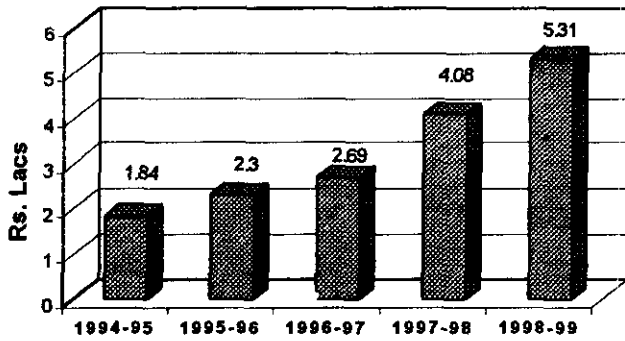
** On post-bonus equity

*** On pre-bonus equity

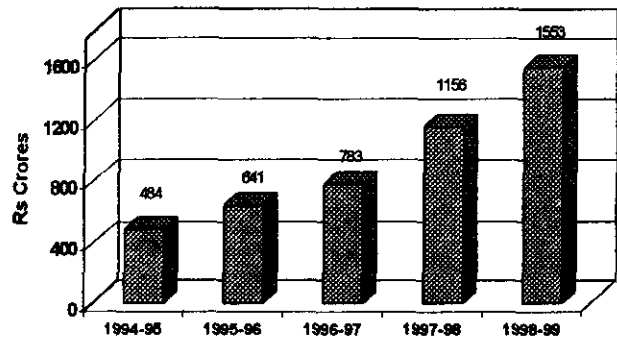
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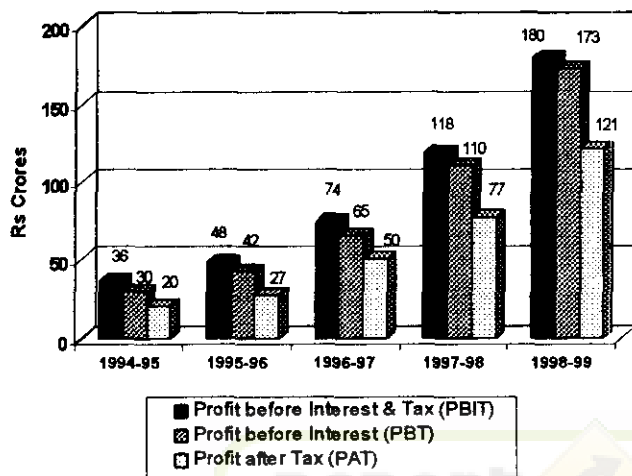
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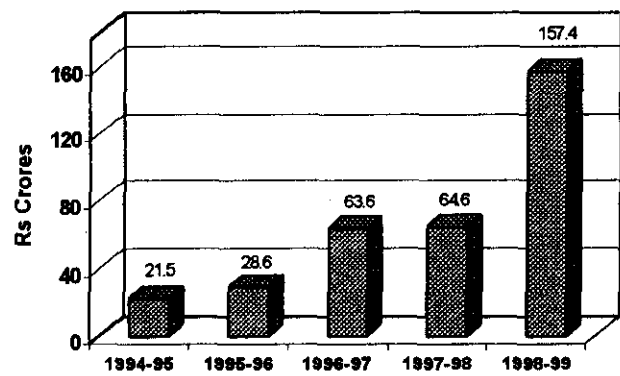
TOTAL INCOME



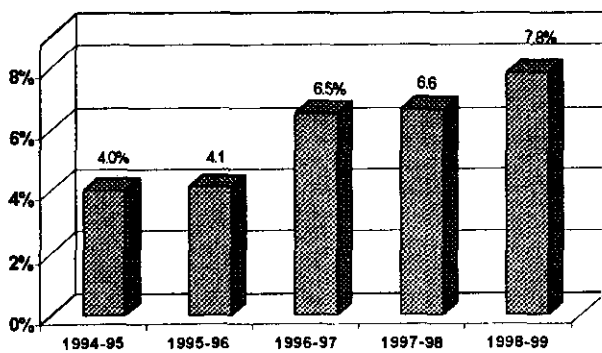
PROFIT



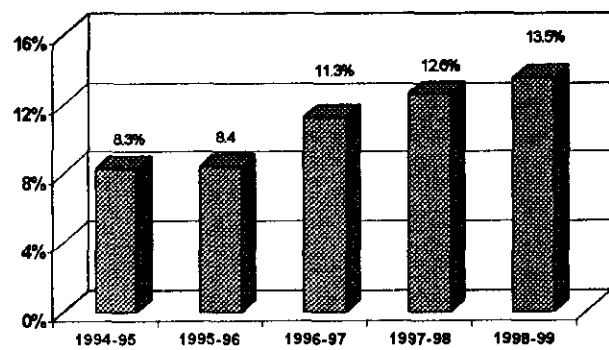
CASH FLOW FROM OPERATIONS



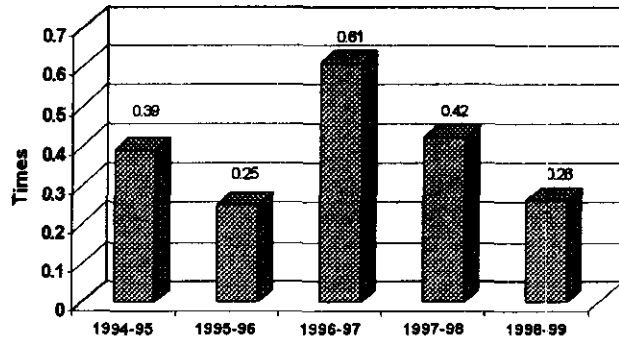
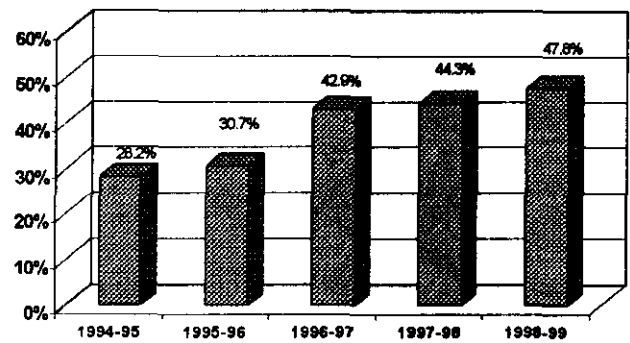
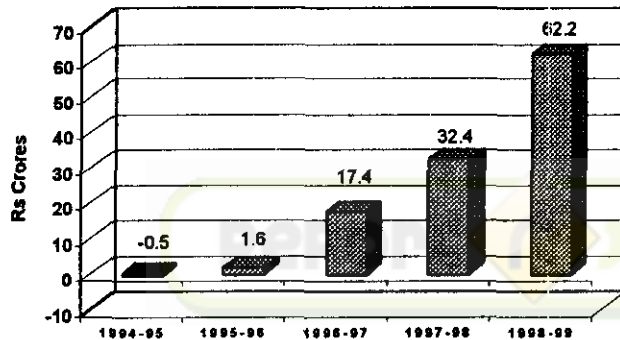
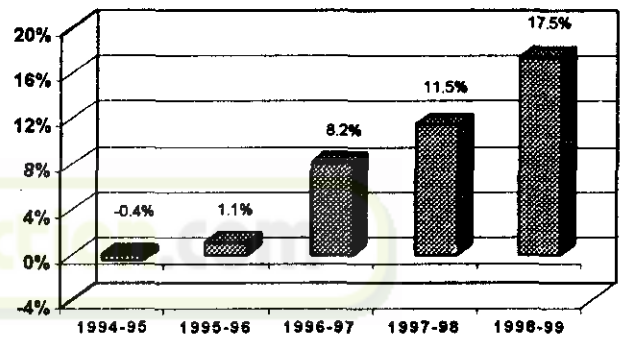
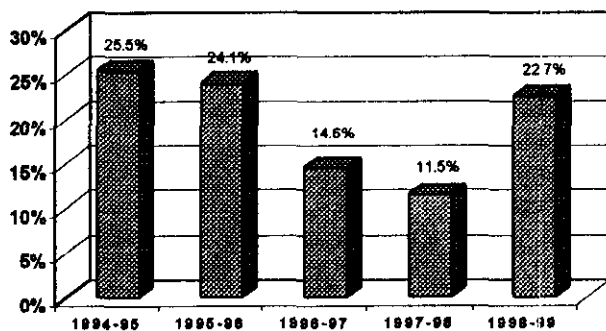
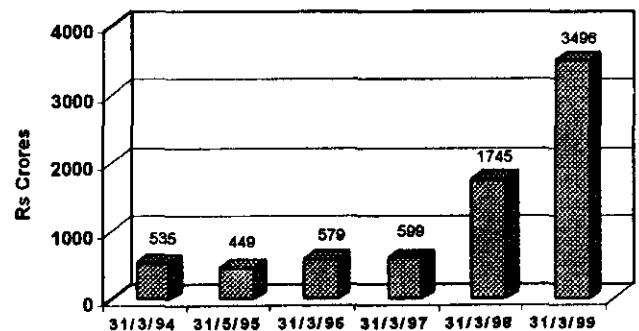
PROFIT AFTER TAX/TOTAL INCOME



OPBDITA/OPERATING INCOME



OPBDITA : Operating Profits before Depreciation, Interest, Tax and Amortisation

LONG TERM DEBT/EQUITY**RETURN ON EQUITY****ECONOMIC VALUE ADDED (EVA)****EVA/CAPITAL EMPLOYED****DIVIDEND PAYOUT****MARKET CAPITALISATION**

NOTICE

NOTICE is hereby given that the 16th ANNUAL GENERAL MEETING of the members of **HERO HONDA MOTORS LIMITED** will be held on Thursday, the 5th August, 1999 at 10.30 A.M. at Air Force Auditorium, Subroto Park, New Delhi-110 010, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited balance sheet of the Company as at 31st March, 1999 and the profit and loss account for the year ended on that date together with the reports of the Directors' and Auditors' thereon.
2. To declare a dividend of Rs. 5.00 per Equity Share for the financial year 1998-99 (on prorata basis on Bonus Shares) and a Special Millennium dividend of Rs. 2.50 per Equity Share.
3. To appoint a Director in place of Mr. Satyanand Munjal, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Matsuo Yamasaki, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. M.P.Wadhawan, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, to pass with or without modification(s), the following resolutions:

As Ordinary Resolutions

VARIATION IN TERMS OF APPOINTMENT OF MR. TAKEHIKO NAKAJIMA

7. "RESOLVED THAT in partial modification of the earlier resolution passed in the Thirteenth Annual General Meeting held on 30th September, 1996 the consent of the Company be and is hereby accorded under Sections 198, 269, 309,310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 to the Board of Directors

to the variations in the terms of appointment of Mr. Takehiko Nakajima, Jt. Managing Director in respect of his remuneration with effect from 1st April, 1999 for the remaining period of his tenure as set out in the Explanatory Statement annexed hereto.

RESOLVED FURTHER THAT the aggregate amount of remuneration payable to him in a particular financial year will be subject to the overall ceiling limit laid down in Sections 198 and 309 of the Companies Act, 1956."

VARIATION IN TERMS OF APPOINTMENT OF MR. MATSUO YAMASAKI

8. "RESOLVED THAT in partial modification of the earlier resolution passed in the Fifteenth Annual General Meeting held on 27th July, 1998 the consent of the Company be and is hereby accorded under Sections 198, 269, 309,310 read with schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 to the Board of Directors to the variations in the terms of appointment of Mr. Matsuo Yamasaki, Technical Director in the Whole-time employment of the Company in respect of his remuneration with effect from 1st April, 1999 for the remaining period of his tenure as set out in the Explanatory Statement annexed hereto.

RESOLVED FURTHER THAT the aggregate amount of remuneration payable to him in a particular financial year will be subject to the overall ceiling limit laid down in Sections 198 and 309 of the Companies Act, 1956."

INCREASE IN THE LIMIT UNDER SECTION 293(1)(e) OF THE COMPANIES ACT, 1956

9. "RESOLVED THAT in supersession of the earlier resolution passed in the Annual General Meeting held on 23rd September 1991, and pursuant to the provisions of the Section 293(1)(e) and other applicable provisions, if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to the Board of Directors of the Company for contributing, subscribing or otherwise assisting or granting money to charitable, benevolent, religious, scientific, national, public or other funds, institutions, subjects or purposes or for any exhibitions not directly relating to the business of the Company or the welfare of its employees upto an amount as prescribed in the Act or Rs. 10 crores (Rupees ten crores only) whichever is higher in any financial year."



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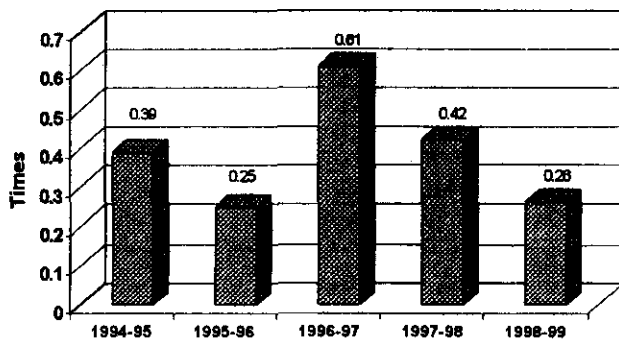
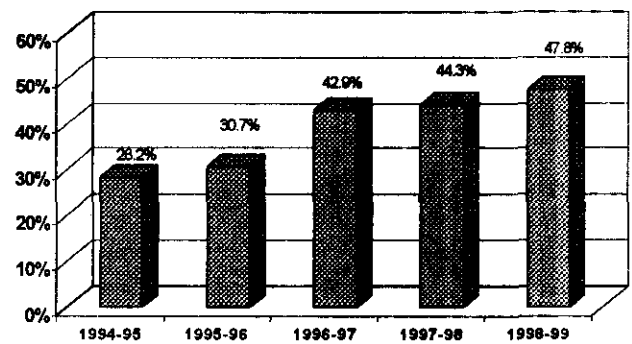
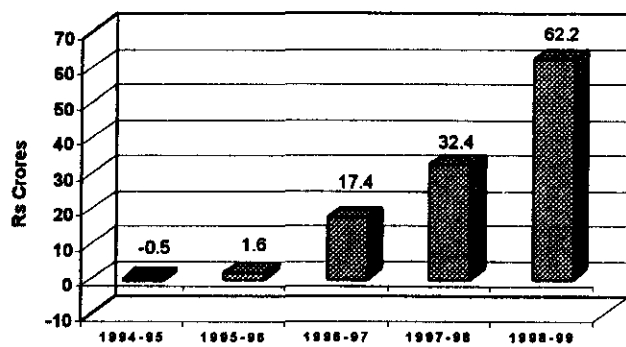
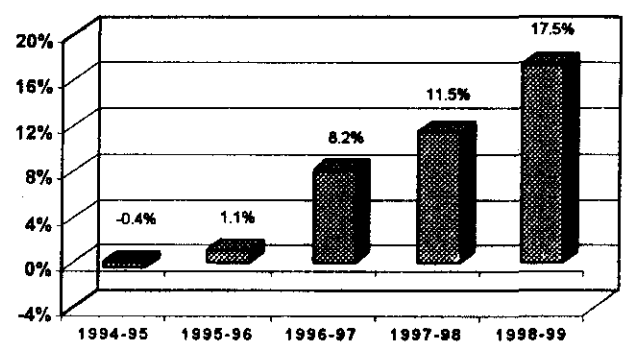
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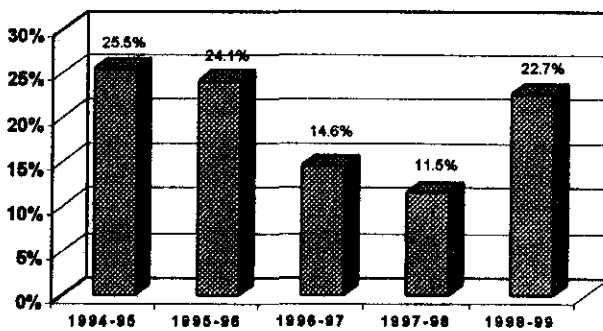
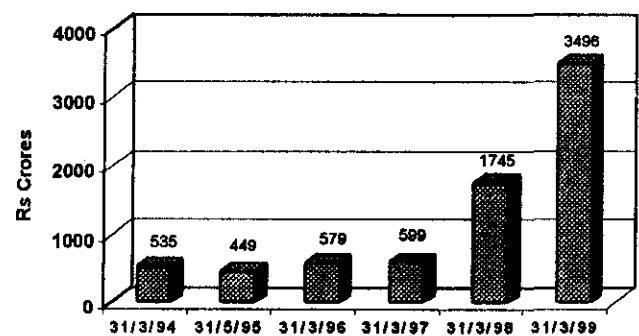
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INCREASE IN THE LIMIT UNDER SECTION 293(1)(e) OF THE COMPANIES ACT, 1956

9. "RESOLVED THAT in supersession of the earlier resolution passed in the Annual General Meeting held on 23rd September 1991, and pursuant to the provisions of the Section 293(1)(e) and other applicable provisions, if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to the Board of Directors of the Company for contributing, subscribing or otherwise assisting or granting money to charitable, benevolent, religious, scientific, national, public or other funds, institutions, subjects or purposes or for any exhibitions not directly relating to the business of the Company or the welfare of its employees upto an amount as prescribed in the Act or Rs. 10 crores (Rupees ten crores only) whichever is higher in any financial year."

LONG TERM DEBT/EQUITY**RETURN ON EQUITY****ECONOMIC VALUE ADDED (EVA)****EVA/CAPITAL EMPLOYED**

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DIVIDEND PAYOUT**MARKET CAPITALISATION**

16th ANNUAL REPORT 1998-99

**As a Special Resolution****AMENDMENT IN ARTICLES OF ASSOCIATION**

10. "RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be and are hereby altered in the manner and to the extent set out below:-

After Article 48, the following new Article be inserted as Article 48A and be read as follows:

48A. Notwithstanding anything contained in Articles 47 & 48 or in any other law for the time being in force, where a nomination has been made in the manner prescribed in Section 109A of the Act, purporting to confer on any person the right to vest the shares in, or debentures of, the Company, the nominee shall, on the death of the shareholder or holder of debentures of the Company or, as the case may

be, on the death of the joint holders, become entitled to all the rights in the shares or debentures of the Company as the case may be, all the joint holders, in relation to such shares in or debentures of the Company to the exclusion of all other persons, unless the nomination is varied or cancelled in the prescribed manner and the provisions contained in Sections 109A and 109B of the Act, shall be applicable to such cases."

By Order of the Board
for HERO HONDA MOTORS LIMITED

ILAM C. KAMBOJ
COMPANY SECRETARY

May 12, 1999

Registered office:

34, Community Centre,
Basant Lok, Vasant Vihar,
New Delhi-110 057

NOTES:

- 1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE (ON A POLL ONLY) INSTEAD OF HIMSELF, AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES IN ORDER TO BE EFFECTIVE MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING.**

2. The Register of Members and the Share Transfer Books of the Company will remain closed from Monday, the 5th July, 1999, to Saturday, the 10th July, 1999 (both days inclusive).

3. The dividend as recommended by the Board of Directors, if approved by the Shareholders at the Annual General Meeting shall be paid to those members whose names appear on the Register of Members of the Company on Saturday, the 10th July, 1999.

4. As informed earlier regarding transfer of unclaimed dividend declared for the financial year ended 31st March, 1995 to the General Revenue

Account of the Central Government in the month of October 1998, please note that pursuant to the provisions of Section 205A of the Companies Amendment Act, 1999, the unpaid dividend will now be transferred to the Investor Education and Protection Fund in the month of October, 2002 after the expiry of 7 years from the date of declaration.

Further as per the provisions of the Companies Amendment Act, 1999, no claims shall lie against the Fund or the Company in respect of individual amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any such claims.

Therefore those Shareholders who have not yet claimed / encashed their dividend warrants for the financial year 1994-95 onwards are requested to approach the Company at its registered office for obtaining duplicate dividend warrants/drafts.

5. Members are requested to bring their copy of the Annual Report to the meeting.



EXPLANATORY STATEMENT AS REQUIRED BY SECTION 173(2) OF THE COMPANIES ACT, 1956.

Item No. 7

The members in the Annual General Meeting held on 30th September, 1996 revised the remuneration of Mr. Takehiko Nakajima, Jt. Managing Director of the Company. However, keeping in view the current situation in the industry and to make it consistent with the increased job responsibilities due to considerable growth in the operations of the Company, the Board of Directors by passing a resolution in its meeting held on 12th May, 1999 revised the remuneration with effect from 1st April, 1999 for the remaining period of his tenure as follows:

I. Basic Salary : Rs.45,000/- (Rupees forty five thousand only) per month.

II. Commission : He will also be allowed remuneration by way of commission in addition to Basic Salary, Perquisites and any other Allowances, benefits or amenities subject to the condition that the amount of commission shall not exceed 1% of the net profit of the Company in a particular financial year as computed in the manner referred to in Section 198 of the Companies Act, 1956.

III. Perquisites and Allowances : In addition to the above Basic Salary and Commission, he shall be entitled to the following Perquisites and Allowances:

i) Residential Accommodation:

a) Housing I: The appointee shall be provided free unfurnished residential accommodation, subject to the condition that the expenditure incurred by the Company on hiring of such accommodation shall not exceed Rs.1.00 lac (Rupees one lac only) per month;

or

b) Housing II: In case the accommodation is owned by the Company, 10% of the Basic Salary of the appointee shall be considered as perquisite value;

or

c) Housing III: In case no accommodation is provided by the Company, the appointee shall be entitled to House Rent Allowance subject to ceiling laid down in Housing-I.

In addition to the above the actual expenditure incurred on gas, electricity, water and furnishings shall be paid by the Company.

ii) Medical Reimbursement: Reimbursement of actual Medical Expenses incurred by the appointee and his family.

iii) Club Fees: Actual fees of clubs will be reimbursed.

iv) Personal Accident Insurance: Actual premium to be paid by the Company.

v) Insurance of House-hold goods: Actual premium to be paid by the Company.

vi) Car: Facility of car with driver to be used for the business of the Company.

vii) Telephone: Free telephone facility at Residence to be used for the business of the Company.

viii) Leave: One month's leave with full salary for every 11 months of service subject to the condition that leave accumulated but not availed will not be encashed.

ix) Reimbursement of expenses: Reimbursement of entertainment, travelling, hotel and other expenses actually and properly incurred for the business of the Company.

IV. Leave Travel Concession: For the appointee and his family once in a year incurred in accordance with any rules specified by the Company. In case it is proposed that the leave be spent in home country instead of anywhere in India, return passage may be allowed for self and family in accordance with the rules specified by the Company.

V. Children's Education Allowance: In case of children studying in or outside India, an allowance limited to a maximum of Rs.5000/- per month per child or actual expense incurred, whichever is less is admissible. Such allowance shall be admissible upto a maximum of two children.

VI. Holiday passage for children studying outside India/ family staying abroad: Return holiday passage is admissible once in a year by economy class or once in two years by first class to children from their place of study abroad to India and to the members of his family from the place of their stay abroad to India if they are not residing in India with the appointee.

VII. Reimbursement of expenses incurred for joining duty and returning to home country after completion of tenure: Actual expenses incurred on travel and packing, forwarding, loading /unloading as well as freight, insurance, custom duty, clearing

expenses, local transportation and installation expenses in connection with the moving of personal effects for self and family for joining duty in India. On completion of the tenure, all the expenses referred to herein above for travel and forwarding the personal effects to Japan shall also be allowable to the appointee on his finally leaving the employment of the Company.

If however, the appointee joins another branch of the same/related multinational Company, the branch to which he is transferred shall bear these expenses.

Explanation: For the aforesaid purposes "Family" means the spouse, the dependent children and dependent parents of the appointee.

VIII. Minimum Remuneration: If in any financial year during the currency of tenure of the Jt. Managing Director, the Company has no profits or its profits are inadequate, the appointee shall be entitled to minimum remuneration by way of Basic Salary, Perquisites, Allowances, not exceeding the ceiling limit of Rs.10,50,000/- per annum or Rs.87,500/- per month:

Provided further that following Perquisites which are also allowed to him shall not be included in the computation of this ceiling:-

- i) Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under Income-Tax Act, 1961; and
- ii) Gratuity payable at a rate not exceeding half month's salary for each completed year of service.

However, the appointee shall not be entitled to any sitting fee for attending meetings of the Board and/or Committee of Directors.

The revision in the remuneration under item no. 7 of the Notice is subject to the approval of the shareholders of the Company.

Mr. T.Nakajima may be deemed to be interested/concerned in the resolution contained under item no. 7 of the notice.

The Board of Directors of your Company recommends passing of the aforesaid Ordinary Resolution.

Item No. 8

The members in the Annual General Meeting held on 27th July, 1998 revised the remuneration of Mr. Matsuo Yamasaki, Technical Director in the whole-time employment of the Company. However, keeping in view the current situation in the industry and to make it consistent with the increased job responsibilities due to considerable growth in the operations of the Company, the Board of Directors by passing a resolution in its meeting held on 12th May, 1999 revised the remuneration with effect from 1st April, 1999 for the remaining period of his tenure as follows.

- I. Basic Salary : Rs.40,000/- (Rupees forty thousand only) per month.
- II. Commission : He will also be allowed remuneration by way of Commission in addition to Basic Salary, Perquisites and any other Allowances, benefits or amenities subject to the condition that the amount of Commission shall not exceed 1% of the net profit of the Company in a particular financial year as computed in the manner referred to in Section 198 of the Companies Act, 1956.
- III. Perquisites and Allowances : In addition to the above Basic Salary and Commission, he shall be entitled to the following Perquisites and Allowances:

i) Residential Accommodation:

- a) Housing I: The appointee shall be provided free unfurnished residential accommodation subject to the condition that the expenditure incurred by the Company on hiring of such accommodation shall not exceed Rs.1.00 lac (Rupees one lac only) per month; or
- b) Housing II: In case the accommodation is owned by the Company, 10% of the Basic Salary of the appointee shall be considered as perquisite value; or
- c) Housing III: In case no accommodation is provided by the Company, the appointee shall be entitled to House Rent Allowance subject to ceiling laid down in Housing-I.

In addition to the above the actual expenditure incurred on gas, electricity, water and furnishings shall be paid by the Company.

- ii) Medical Reimbursement: Reimbursement of actual Medical Expenses incurred by the appointee and his family.

- iii) Club Fees: Actual fees of clubs will be reimbursed.
 - iv) Personal Accident Insurance: Actual premium to be paid by the Company.
 - v) Insurance of House-hold goods: Actual premium to be paid by the Company.
 - vi) Car: Facility of car with driver to be used for the business of the Company.
 - vii) Telephone: Free telephone facility at Residence to be used for the business of the Company.
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- V. Children's Education Allowance: In case of children studying in or outside India, an allowance limited to a maximum of Rs.5000/- per month per child or actual expense incurred, whichever is less is admissible. Such allowance shall be admissible upto a maximum of two children.
- VI. Holiday passage for children studying outside India/ family staying abroad: Return holiday passage is admissible once in a year by economy class or once in two years by first class to children from their place of study abroad to India and to the members of his family from the place of their stay abroad to India if they are not residing in India with the appointee.
- VII. Reimbursement of expenses incurred for joining duty and returning to home country after completion of tenure: Actual expenses incurred on travel and packing, forwarding, loading /unloading as well as freight, insurance, custom duty, clearing expenses, local transportation and installation

expenses in connection with the moving of personal effects for self and family for joining duty in India. On completion of the tenure, all the expenses referred to herein above for travel and forwarding the personal effects to Japan shall also be allowable to the appointee on his finally leaving the employment of the Company.

If however, the appointee joins another branch of the same/related multinational Company, the branch to which he is transferred shall bear these expenses.

Explanation: For the aforesaid purposes "Family" means the spouse, the dependent children and dependent parents of the appointee.

VIII. Minimum Remuneration: If in any financial year during the currency of tenure of the Technical Director in the whole-time employment of the Company has no profits or its profits are inadequate, the appointee shall be entitled to minimum remuneration by way of Basic Salary, Perquisites, Allowances, not exceeding the ceiling limit of Rs.10,50,000/- per annum or Rs.87,500/- per month.

Provided further that following Perquisites which are also allowed to him shall not be included in the computation of this ceiling:-

- i) Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under Income-Tax Act, 1961 ; and
- ii) Gratuity payable at a rate not exceeding half month's salary for each completed year of service.

However, Mr. Matsuo Yamasaki shall not be entitled to any sitting fee for attending meetings of the Board and/or Committee of Directors.

The revision in the remuneration under item no. 8 of the Notice is subject to the approval of the shareholders of the Company.

Mr. Matsuo Yamasaki may be deemed to be interested/ concerned in the resolution contained under item no. 8 of the notice.

The Board of Directors of your Company recommends passing of the aforesaid Ordinary Resolution.

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**Item No. 9.**

With the considerable growth in the performance of the Company, its social responsibilities has also grown significantly. In order to continue to undertake the activities for the upliftment of poor and needy and to improve the quality of life of the public by contributing towards education, health, sports and other services, the limit of donation of Rs. 1 crore sanctioned by the Members in their Eighth Annual General Meeting needs revision.

The revision in the limit pursuant to Section 293(1)(e) of the Companies Act, 1956 as per the resolution under item no. 9 of the Notice is subject to the approval of the shareholders of the Company.

The Board of Directors of your Company recommends passing of the aforesaid Ordinary Resolution. None of the Directors is concerned or interested in the passing of the Ordinary Resolution at item no 9.

Item No. 10.

An amendment has been made to the Companies Act, 1956 through the Companies Amendment Act 1999, to permit the holders of every share in or debentures of the Company, to nominate in the prescribed manner, a person to whom his shares in or debentures of the Company shall vest in the event of his death.

In order to bring the Articles of Association of the Company in conformity with the provisions of the amendment made to the Companies Act, a new Article is being added, subject to the approval of the Equity Shareholders in the General Meeting.

The Board of Directors of your Company recommends passing of the aforesaid Special Resolution at item no. 10.

None of the Directors is concerned or interested in the passing of this Special Resolution.

Inspection

A copy of the Articles of Association of the Company together with proposed alterations, will be available for inspection of the Members at the Registered Office of the Company between 11 A.M. and 1 P.M. on any working day of the Company and will also be available at the meeting.

**By Order of the Board
for HERO HONDA MOTORS LIMITED**

**ILAM C. KAMBOJ
COMPANY SECRETARY**

May 12, 1999

Registered office:
34, Community Centre,
Basant Lok, Vasant Vihar,
New Delhi-110 057

DIRECTORS' REPORT TO THE MEMBERS

Dear Members,

Your Directors have immense pleasure in presenting the Sixteenth Annual Report together with the audited statements of account for the financial year ended 31st March, 1999.

FINANCIAL RESULTS

	(Rupees in lacs)	
	Year ended March 31, 1999	Year ended March 31, 1998
Sales and Other Income	1,55,290.16	1,15,615.42
Profit Before Depreciation and Finance Charges	20,277.27	13,623.91
Finance Charges	762.05	790.95
Depreciation	2,241.69	1,878.56
Profit Before Tax	17,273.53	10,954.40
Provision For Tax	5,136.45	3,294.00
Profit After Tax	12,137.08	7,660.40
Transfer From Investment Allowance (Utilised) Account	228.55	-
Transfer From Debenture Redemption Reserve	-	223.90
Balance Of Profit Brought Forward	11,259.37	5,053.85
Balance Available For Appropriation	23,625.00	12,938.15
Transfer To General Reserve	7500.00	800.00
Dividend	75%	40%

OPERATIONS

The year 1998-99 will go down as another milestone in the history of the Company as the Company has produced 5,32,738 motorcycles even in the sluggish economic conditions. Your Company has not only maintained its leadership in the motorcycle market, but has also registered a growth in terms of volume of 31%. The market share has grown by 5% from the level of last financial year to 37.5%. Considering the growth of 10% in two wheeler industry and 24% in motorcycle segment, the growth of your Company is commendable.

Sales (net of excise duty) and other income has registered an impressive performance aggregating to Rs. 1552.90 crores as compared to Rs.1156.15 crores during the previous financial year representing a net increase of 34%. Pre Tax Profit increased by 58 % from Rs.109.54 crores in 1997-98 to Rs. 172.74 crores in the financial year ended on March 31, 1999. Similarly Profit After Tax increased by 58% from Rs. 76.60 crores in 1997-98 to Rs. 121.37 crores in 1998-99.

Even though the economic scenario and political situation in the country is not very conducive, your company will still continue to strive for growth. The motorcycle segment in the two wheeler industry is expected to maintain the growth rate in near future also. Your Company has plans to invest a significant amount during the next few years in capital equipment and for introduction of new models to cope up with the market requirements. The Company does not intend to borrow money for this purpose from outside sources, rather the entire investment will be done from internal accruals.

NEW MODEL

Hero Honda has always been an industry pioneer. Your Company was the first motorcycle company to bring 4 stroke technology for 100 cc bikes in the country. Today, yet again, it has changed the paradigm in two wheelers by launching from its stable the most powerful and fast bike in the country **CBZ(ee)**, powered by a 156 cc engine & delivering 12.8 Ps Power through a 5 speed gear mechanism. It is the only motorcycle available with a disc brake option. Its unique feature of Transient Power Fuel Control(TPFC) system makes it the dream bike for every person who is young at heart.

EXPORTS

In continuation of its pursuit to increase its export base, Hero Honda Motors participated in SAARC and CII trade fairs. The response to the products shown in these fairs was very encouraging and the Company expects to clock a higher export sales during the current financial year. During the year under review Guatemala, Chile and Costa Rica were added as new product and service markets.

DIVIDEND

In view of the significant growth achieved by the Company during the year under review, your Directors are pleased to recommend, for your consideration and approval, a dividend of 50% on the increased capital base. The company allotted bonus shares in the ratio of 1:1 during the previous financial year and considering the increase in equity capital due to the bonus issue the effective dividend payment is significantly higher in comparison to the dividend paid in the previous year. The Bonus shares so allotted on 28.9.98 shall be entitled to pro-rata dividend.



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SPECIAL MILLENNIUM DIVIDEND

Your Company believes in the philosophy of **Caring**. It cares for its customers by providing value for their money in the form of quality product and after sales service. Similarly the investors are taken care of by increase in their networth and return on their investment. In the previous year the Company has issued Bonus Shares for the second time within the last five years and during the year the Board of Directors has recommended for your consideration and approval a Special Millennium Dividend of 25% on the total capital.

FIXED DEPOSITS

During the year under review, the Company has not accepted any deposit under Section 58A of the Companies Act, read with Companies (Acceptance of Deposits) Rules, 1975.

BOARD OF DIRECTORS

Mr. Satyanand Munjal, Mr. Matsuo Yamasaki and Mr. M.P.Wadhawan would retire at the conclusion of the forthcoming Annual General Meeting and being eligible, have offered themselves for re-appointment. The Board recommends their re-appointment.

DEPOSITORY SYSTEM

It is heartening to inform that SEBI has made compulsory the trading in the shares of the company for all investors in dematerialised form from February 15, 1999. This step will further give boost to trouble free trading in this scrip. Out of the public holding, around 58% of the shares have already been dematerialised.

SOCIAL CONTRIBUTIONS

At Hero Honda, we believe in a wholesome approach towards development in a large agrarian economy like India, by assimilating our rural sub systems to the main stream of development. By doing so we can **inc** rural income, generate employment and can **pro** basic amenities in the rural areas.

It is our firm belief that success in the undertaken programmes can only be achieved through community participative approach. Encouraging increasing participation of community members in their own development by creating awareness about the role of good health and education, in promoting general well being and thereby contributing to increased employment and prosperity.

In the process of procuring the ISO 14001 certification the Company has implemented the Environmental Management Programme which, inter alia, includes the training of 400 employees and codification of guidelines for the control of wastage of resources. The tree plantation plan of your company continues with the same vigour.

The Raman Munjal Vidya Mandir founded in 1992, has since grown to 850 students and 37 teachers. Owing to the scarcity of drinking water in the villages around the works, 42 hand pumps have been installed while 15 more are on the cards. On the health front, your company has continued the practice of holding regular ENT & Eye check up camps, the blood donation camp and initiated a heart check up camp in 1998, all of which have met with unprecedented response. Further the company has been instrumental in holding the Rewari and Bawal Civil Hospital family planning camps and the Red Cross Rehabilitation camp for the physically challenged. Company has actively participated in the pulse polio, and HIV/AIDS awareness programmes.

INSURANCE

All properties and insurable assets of the Company, including Building, Plant & Machinery, and Stocks had been adequately insured, wherever necessary, and to the extent required.

COST AUDITORS

The Board have re-appointed M/s. Ramanathan Iyer & Co. as the Cost Auditors of the Company under Section 233 (B) of the Companies Act, 1956 subject to the approval of the Central Government for the year 1999-2000. The Cost Auditors' Report will be forwarded to the Central Government as required under law.

AUDITORS

M/s. A. F. Ferguson & Co., Chartered Accountants, New Delhi, Auditors of the Company retire at the conclusion of **ensuing** Annual General Meeting, and being eligible, offer **themselves** for re-appointment. The Company has received **a** certificate from the auditors to the effect that their re-appointment, if made, would be in accordance with Section 224(1B) of the Companies Act, 1956. The Board recommends their re-appointment.

AUDITORS' REPORT

As regards observations contained in the Auditors' Report, the respective notes to the accounts are self explanatory and therefore, do not call for any further comments.



CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Information required under Section 217 (1) (e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given in the Annexure and forms an integral part of this Report.

PARTICULARS OF EMPLOYEES

A statement showing particulars of employees as required u/s 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 is annexed, and forms an integral part of the report.

LISTING

The Shares of your Company are listed on Delhi, Mumbai, Calcutta, Ahmedabad and Ludhiana Stock Exchanges and pursuant to Clause 38 of the listing agreement the annual listing fee for the year 1999-2000 has been paid well before the due date i.e. 30th April 1999.

YEAR 2000 (Y2K) COMPLIANCE STATUS:

Your Company has in place a comprehensive plan to address Y2K compliance in a systematic manner:

- a) A detailed inventory of all critical application software and hardware systems has been identified and a significant part of these have been made Y2K compliant. The remaining portion is expected to be completed by July 1999. The vendors and business partners are also in process of completing the job of Y2K compliance with whom a regular follow-up is being undertaken; and
- b) The estimated cost for replacing non compliant hardware and to fix the Y2K bug in softwares will be around Rs.15 lacs.

- c) The company does not foresee any problems due to Y2K. Further the company assures you that with regular and continuous monitoring of the plan the risk of disruption of operations will be taken care of in case of any eventuality.

PERSONNEL

Your Directors wish to place on record their appreciation of all the employees of the Company for their sustained efforts and valuable contribution to the high level of performance and growth during the year. Industrial relations remained cordial throughout the year.

APPRECIATION

It is our strong belief that caring for our business constituents has and will go a long way in the progress of the Company and your Directors acknowledge with sincere gratitude the co-operation and assistance extended by the Central Govt., State Govt.(s), Financial Institutions, Banks, Customers, Dealers, Vendors and Ancillaries.

Your Directors, also, place on record their appreciation for the valuable assistance and guidance extended to the Company by Hero Cycles Ltd and Honda Motor Co., Ltd., Japan and for the encouragement and assurance which our collaborator has given for the growth and development of new models of the Company.

The Board, also, takes this opportunity to express its deep gratitude for the continued co-operation and support received from the shareholders.

For and on behalf of the Board

BRIJMOHAN LALL MUNJAL

Chairman and Managing Director

May 12, 1999
New Delhi

ANNEXURE TO DIRECTORS' REPORT

(Information Under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 1999);

I. CONSERVATION OF ENERGY

Techno-economic viability of few energy saving proposals are being carried out and few proposals

have been implemented already.

a) Energy conservation measures taken

1. Provided water flow meters to audit & control water consumption;
2. Installed additional capacitors to improve power factor;
3. Installed soft starters of 180 HP motors.

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**b) Proposals under Viability Study**

1. To install Automatic Power factor control panel.;
2. To provide soft starters for new compressors;
3. To provide light sensors for controlling road lights.

Impact of the measures at a) and b) above for reduction of energy consumption and consequent impact on the cost of production of goods.

1. Capacitors have saved energy and reduced down time and maintenance cost of machines;
2. Water flow meters have reduced water consumption by regular audits of water consumption;
3. Soft starters have saved no load energy consumption of compressors.

Total energy consumption and energy consumption per unit of production as per Form-A of the Annexure to the Rules, in respect of the industries specified, is given as below:

FORM-A

Form for Disclosure of Particulars with respect to Conservation of Energy

FOR DHARUHERA PLANT

A. Power and Fuel Consumption per Unit of Production:		Current year	Previous year
Product Unit (Motorcycle)		396022	353354
1. Electricity			
a) Purchased Unit		8335013KW	8768382 KW
Total Amount		Rs.3,17,93,558	Rs.3,02,96,037
Rate/unit		Rs.3.81/KWH	Rs.3.46/KWH
b) Own Generation			
Through Diesel Generator Unit			
Self		15244354KW	12689018KW
Hired		NIL	189290KW
		15244354KW	12878328KW
Unit per-ltr.of Diesel Oil			
Cost/unit			
Self		3.48 KW/Ltr.	3.51KW/Ltr
Hired		NIL	2.43KW/Ltr
2. Furnace Oil			
Quantity (K.Ltrs).		873.560 KL	909.91KL
Total Amount			
Furnace Oil (Rs.)		5150816	53,17,382
Average Rate		Rs. 5.90/LTR.	Rs.5.84/LTR.
B. Consumption per unit of production.			
	Standards (if any)	Current Year	Previous Year
1) Electricity	-	59.46 KW/ Motor cycle	61.26 KW/ Motor cycle
2) Furnace Oil	-	2.21 Ltrs/ Motor cycle	2.58 Ltrs/ Motor cycle



FOR GURGAON PLANT

A. Power and Fuel Consumption per unit of production:		Current year	Previous year
Electricity			
Own Generation			
Through Diesel Generator Unit			
Self		14080999KW	7582800KW
Unit per-ltr.of Diesel Oil Cost/unit			
Self		3.53 KW/Ltr.	3.58KW/Ltr.
B. Consumption per Unit of Production.		Current Year	Previous Year
Products	Standards (if any)		
Product Unit (Motorcycle)		136716	53943
Electricity		102.99 KW/ Motor cycle	140.57 KW/ Motor cycle

II. PARTICULARS AS PER FORM B

(a) RESEARCH & DEVELOPMENT (R&D)

1. Specific areas in which R & D carried out by the Company

- 1.1 New Model Technology Absorption.
- 1.2 Indigenisation of CKD Parts.
- 1.3 Multi Source Approval.
- 1.4 Meeting Legislative Norms.

2. Benefits derived as a result of the above R & D activities.

- 2.1 New Model launched.
- 2.2 Major new sources added for existing model.
- 2.3 Multi Source Major Components approved.
- 2.4 New model tyre approval.
- 2.5 Indigenisation of Nut cap 7mm for Splendor and Nut 'U' 6mm & 10mm and Plate Assy. Fr. Drive.

3. Future plan of action

- 3.1 Proposed to indigenise few more CKD parts of Street, CD-100 and Splendor motorcycle.
- 3.2 Development work for the year 2000 Emission Norms.
- 3.3 Acquiring Mass Emission Testing Capabilities.

4. Expenditure on R & D (Rupees in lacs)

	Year ended March 31, 1999	Year ended March 31, 1998
i) Capital	46.51	53.27
ii) Recurring	300.82	315.92
iii) Total R & D expenditure as a percentage of sales (as per P & L A/c)	0.23%	0.28%

(b) TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Certain more parts which were till date being imported have been developed in India. With the Multiple source development, supply capacities of bought out parts have been increased to meet the increased volume of production.

III. FOREIGN EXCHANGE EARNINGS AND OUTGO

Earnings

Foreign exchange earnings during the period under report was Rs.4647.70 lacs as compared to Rs.6122.06 lacs in the previous year.

Outgo

On account of Royalty, Technical Guidance Fee, Technical Know-How fee, Export Commission, Travel and other accounts, Interest etc., Foreign Exchange Outgo was Rs. 1914.37 lacs, as compared to Rs.1541.06 lacs in the previous year. Besides outgo on account of Dividend was Rs. 124.60 lacs as compared to Rs.181.71 lacs in the previous year. On account of import of components, spare parts, raw materials and capital goods, the foreign exchange outgo was Rs. 21518.78 lacs as compared to Rs.11274.78 lacs in the previous year.

ANNEXURE TO DIRECTORS' REPORT
INFORMATION AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES
(PARTICULARS OF EMPLOYEES) RULES, 1975 FORMING PART OF THE DIRECTORS' REPORT
FOR THE PERIOD ENDED MARCH 31, 1999

Name of Employee	Age (Yrs)	Designation (Nature of Duties)	Gross Rem. (Rs.)	Qualification	Experience (Years)	Shareholding %/(Nos.)	Date of Employment	Last Employment
Agrawal, K.K.	51	Sr. Vice President (Operations)	1096438	B.E. (Mech.)	28	-	30.09.1993	Chief of Operations - Vespa Car Co. Ltd.
Ajjan, Paramjeet S.	50	Vice President (P.D.)	1195915	M.A. (Psych.), M.B.A. (XLRI)	26	-	12.01.1998	Chief Executive Officer - The Matrix
Gupta, S.B.	51	General Manager (R & D)	601983	B.Sc.(Engg.), M.Tech.	27	(250)	24.09.1987	Manager (R & D) - Kelvinator of India Ltd.
Iseri, Tokuji	42	Technical Advisor (Quality Control)	650853	General Course, Aso High School	24	-	19.01.1997	Staff Engineer - Honda Motor Co. Ltd., Japan
Malhotra, K.K.	52	Vice President (Materials)	996268	B.Sc. (Engg.)	30	-	16.08.1985	Manager (Purchase) - BST Ltd.
Menon, P.B.	55	Sr. Vice President (E & P)	1208678	B. Sc. (Engg.) M.E. (Mech.)	31	(436)	01.03.1984	Manager- R & D - Majestic Auto Ltd.
Munjal, Brijmohan Lall	76	Chairman and Managing Director	12547394	Experienced	55	-	03.08.1991	Chairman - Hero Cycles Ltd.
Munjal, Pawan Kant	45	Whole-Time Director	11322495	B.E. (Mech.)	23	0.04%	01.04.1986	Works Executive, - Majestic Auto Ltd.
Nakajima, Takehiko	54	Joint Managing Director	988020	B.A. English Literature Nanzan University	29	-	29.01.1996	Manager - Honda Motor Co. Ltd., Japan
Sobti, Arul*	45	Sr. Vice President (Marketing & Sales)	1419652	B.A.(Hons.) Eco., PGDM (IIMA)	22	-	16.04.1998	Chief Executive Officer - Elbee Services Ltd.
Sud, Ravi*	44	Vice President (Finance)	1000559	B.Com (Hons.), PGDM (IIMA), FCS, AICWA	23	-	25.04.1998	General Manager - Eicher Goodearth Ltd. (Corporate Finance)
Yamasaki, Matsuo	55	Technical Director	787876	Kumamoto, Pref. Minanata Tech. High School-Arch	36	-	18.04.1993	Engineer - Honda Motor Co. Ltd., Japan

* Employed for part of the year

Notes :

- Information has been furnished on the basis of employees employed throughout the financial year, who were in receipt of remuneration for that year which, in the aggregate, was not less than Rs. 600000/- (Rupees Six lacs) and those employed for the part of the financial year, were in receipt of remuneration for any part of that year at a rate which, in the aggregate was not less than Rs. 50000/- (Rupees fifty thousand) per month.
- Remuneration includes salary, commission, other allowances, payments and expenditures incurred on perquisites and company's contribution to Provident and Superannuation Funds.
- All appointments are/were on contractual basis.
- Mr. Brijmohan Lall Munjal and Mr. Pawan Kant Munjal are related to Mr. Om Prakash Munjal and Mr. Satyanand Munjal, Directors of the Company. None of the other employees is a relative of any director of the Company.

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**AUDITORS' REPORT****TO THE MEMBERS OF HERO HONDA MOTORS LIMITED**

We have audited the attached Balance Sheet of Hero Honda Motors Limited as at March 31, 1999 and also the Profit and Loss Account of the Company for the year ended on that date, annexed thereto, and report that:

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the annexure referred to in paragraph 1 above:
 - a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) in our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books.

- c) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
- d) in our opinion, the Profit and Loss Account and Balance Sheet comply with the mandatory accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- e) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view;
 - i) in the case of the Balance Sheet, of the state of the Company's affairs as at March 31, 1999; and
 - ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date.

For A.F. FERGUSON & CO,
Chartered Accountants

May 12, 1999
New Delhi

A.K. MAHINDRA
Partner

ANNEXURE REFERRED TO IN PARAGRAPH 1 OF THE AUDITORS' REPORT TO THE MEMBERS OF HERO HONDA MOTORS LIMITED ON THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 1999

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. As explained to us, the Company has a system of physical verification which is designed to cover all assets over a period of three years and in accordance therewith, physical verification of certain fixed assets of the Company was carried out during the year. In our opinion, the frequency of physical verification is reasonable having regard to the size of the Company and the nature of its fixed assets. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of account.
2. None of the fixed assets has been revalued during the year.
3. The stocks of finished goods, stores, spare parts and raw materials including components have been physically verified during the year by the management, except for stocks lying with third parties at the year end for which confirmations have been obtained in most of the cases. In our opinion, the frequency of verification is reasonable.
4. In our opinion and according to the information and explanations given to us, the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
5. The discrepancies noticed on physical verification of stocks as compared to book records were not material and have been properly dealt with in the books of account.
6. On the basis of our examination of stock records, we are of the opinion that the valuation of stocks is fair and proper in accordance with normally accepted accounting principles, and is on the same basis as in the previous year.

7. According to the information and explanation given to us, the Company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956, or from companies under the same management as defined under section 370 (1-B) of the Companies Act, 1956.
8. In our opinion, the rates of interest and other terms and conditions on which unsecured loans have been granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 are, prima facie, not prejudicial to the interest of the Company. We are informed that the Company has not granted any loans to the companies under the same management as this Company, as defined under section 370 (1-B) of the Companies Act, 1956.
9. In respect of loans and advances in the nature of loans given by the Company to employees, suppliers and others, the parties are repaying the principal amounts as stipulated and are also regular in the payment of interest, where charged.
10. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business, for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets, and for the sale of goods.
11. The prices paid in respect of transactions of purchase of goods and materials made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956, are according to the information and explanations given to us, of specialised nature for which there are no alternate sources of supply to enable a comparison of the prices paid. There are no transactions of sale of goods, materials and services made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956, and aggregating during the year to Rs 50,000 or more.
12. As explained to us, the Company has a regular procedure for the determination of unserviceable or damaged stores, raw materials including components and finished goods. Adequate provision has been made in the accounts for the loss arising on the items so determined.
13. The Company has not accepted any deposits from the public.
14. In our opinion, reasonable records have been maintained by the Company for the sale and disposal of realisable scrap. As explained to us, the Company's operations do not generate any realisable by-products.
15. In our opinion, the Company has an adequate internal audit system commensurate with the size and nature of its business.
16. We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determining whether they are accurate or complete.
17. According to the records of the Company, Provident Fund and Employees State Insurance dues have been regularly deposited during the year with the appropriate authorities.
18. According to the information and explanations given to us, no undisputed amounts payable in respect of Income-Tax, Wealth Tax, Sales Tax, Customs Duty and Excise Duty were outstanding as at March 31, 1999 for a period of more than six months from the date they became payable.
19. According to the information and explanations given to us no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
20. The Company is not a sick industrial company within the meaning of clause (o) of sub-section (1) of section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
21. According to the information and explanations given to us, there are no damaged goods in the case of goods purchased for resale.

For **A.F. FERGUSON & CO.,**
Chartered Accountants

May 12, 1999
New Delhi

A. K. MAHINDRA
Partner



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Balance Sheet as at March 31, 1999

	Schedule No.	As at March 31, 1999	(Rupees in lacs) As at March 31, 1998
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share capital	1	3993.75	1996.88
Reserves and surplus	2	26063.92	18701.97
		<u>30057.67</u>	<u>20698.85</u>
LOAN FUNDS	3		
Secured		6619.11	7825.13
Unsecured		2160.03	959.63
		<u>8779.14</u>	<u>8784.76</u>
CUSTOMERS' ADVANCES	4	1376.68	1389.73
TOTAL FUNDS EMPLOYED		<u>40213.49</u>	<u>30873.34</u>
APPLICATION OF FUNDS			
FIXED ASSETS	5		
Gross block		37304.76	29188.70
Less: Depreciation		10744.11	9457.71
		<u>26560.65</u>	<u>19730.99</u>
Capital work in progress		4302.44	1801.93
Net block		<u>30863.09</u>	<u>21532.92</u>
INVESTMENTS	6	8941.21	4054.91
CURRENT ASSETS, LOANS AND ADVANCES	7		
Inventories		13598.95	9018.11
Sundry debtors		2655.49	3175.95
Cash and bank balances		522.65	1266.37
Other current assets		18.12	1.52
Loans and advances		10317.19	7014.46
		<u>27112.40</u>	<u>20476.41</u>
Less: CURRENT LIABILITIES AND PROVISIONS	8		
Current liabilities		23568.68	14353.50
Provisions		3937.17	1249.26
		<u>27505.85</u>	<u>15602.76</u>
Net current assets		(393.45)	4873.65
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	9	802.64	411.86
		<u>40213.49</u>	<u>30873.34</u>
Notes to the accounts	13		

Per our report attached
For A. F. FERGUSON & Co.
Chartered Accountants

A. K. MAHINDRA
Partner

RAVI SUD
Vice President-Finance
ILAM C. KAMBOJ
Company Secretary
New Delhi
May 12, 1999

BRIJMOHAN LALL MUNJAL
Chairman and Managing Director
M.P. WADHAWAN
O.P. GUPTA
Directors

TAKEHIKO NAKAJIMA
Joint Managing Director
PAWAN KANT MUNJAL
MATSUO YAMASAKI
Whole-Time Directors

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**Profit and Loss account for the year ended March 31, 1999**

	Schedule No.	Year ended March 31, 1999	(Rupees in lacs) Year ended March 31, 1998
INCOME			
Sales and other income	10	<u>155290.16</u>	<u>115615.42</u>
EXPENDITURE			
Manufacturing and other expenses	11	<u>134552.30</u>	101788.92
Depreciation		<u>2241.69</u>	1878.56
Finance charges	12	<u>762.05</u>	790.95
Miscellaneous expenditure written off		<u>460.59</u>	202.59
Total expenditure		<u>138016.63</u>	<u>104661.02</u>
Profit for the year before tax		<u>17273.53</u>	10954.40
Provision for taxation		<u>5136.45</u>	3294.00
Profit after tax		<u>12137.08</u>	7660.40
Transfer from investment allowance (utilisation) account		<u>228.55</u>	-
Transfer from debenture redemption reserve		-	223.90
Balance of profit brought forward		<u>11259.37</u>	5053.85
Balance available for appropriation		<u>23625.00</u>	<u>12938.15</u>
APPROPRIATIONS			
Dividend			
- Interim		-	319.64
- Proposed final		<u>2502.93</u>	479.25
Tax on dividend		<u>275.32</u>	79.89
Transfer to general reserve		<u>7500.00</u>	800.00
Balance carried to balance sheet		<u>13346.75</u>	11259.37
		<u>23625.00</u>	<u>12938.15</u>

Notes to the accounts

13

Per our report attached to the balance sheet

For A. F. FERGUSON & CO.

Chartered Accountants

A. K. MAHINDRA

Partner

RAVI SUD
Vice President-Finance
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Whole-Time Directors

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**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS****1) SHARE CAPITAL**

(Rupees in lacs)

	As at March 31,1999	As at March 31, 1998
AUTHORISED		
5,00,00,000 (Previous year 2,50,00,000) Equity Shares of Rs. 10 each	5000.00	2500.00
4,00,000 (Previous year 4,00,000) Cumulative Convertible Preference Shares of Rs. 100 each	400.00	400.00
4,00,000 (Previous year 4,00,000) Cumulative Redeemable Preference Shares of Rs. 100 each	400.00	400.00
	<u>5800.00</u>	<u>3300.00</u>
ISSUED, SUBSCRIBED AND PAID UP		
3,99,37,500* (Previous year 1,99,68,750) Equity Shares of Rs. 10 each	3993.75	1996.88
	<u>3993.75</u>	<u>1996.88</u>

* Of the above 23962500 (Previous year 3993750) shares are allotted as fully paid bonus shares by capitalisation of general reserve.

2) RESERVES AND SURPLUS

(Rupees in lacs)

	As at March 31,1998	Additions	Deductions	As at March 31,1999
CAPITAL RESERVES				
On shares forfeited	0.04	-	-	0.04
Share premium account on forfeited shares reissued	0.26	-	-	0.26
REVENUE RESERVES				
Investment allowance reserve (utilised) account	777.29	-	228.55*	548.74
Debenture redemption reserve	165.01	-	-	165.01
General reserve	6500.00	7500.00	1996.88**	12003.12
Surplus, being balance in profit and loss account	<u>11259.37</u> <u>18701.97</u>	<u>2087.38</u> <u>9587.38</u>	<u>-</u> <u>2225.43</u>	<u>13346.75</u> <u>26063.92</u>

* Transfer to profit and loss account

** Amount capitalised by way of bonus shares.



3) LOAN FUNDS

(Rupees in lacs)

	As at March 31,1999	As at March 31, 1998
SECURED LOANS		
Debentures	22.47	30.02
Privately placed debentures with Unit Trust of India	200.00	300.00
Term loans from banks:		
Foreign currency loans	5608.08	7395.18
Cash credit from banks	578.56	-
Working capital demand loan from bank	210.00	-
Term loans from financial institutions:		
Foreign currency loans	-	99.93
	<u>6619.11</u>	<u>7825.13</u>
UNSECURED LOANS		
Short - term loans and advances		
From banks		
Temporary overdraft	10.92	7.33
Packing credit	147.60	-
From others		
Sales tax deferment from the State Government of Haryana	985.96	-
Security deposits from dealers	1015.55	952.30
	<u>2160.03</u>	<u>959.63</u>

- The outstanding amount of debentures comprising 19647 (previous year 27098), 15% Non-convertible debentures of Rs.100 each (not exceeding Rs. 5000 per debenture holder), 1793, 15% Non-convertible debentures of Rs.30 each being the first instalment (excluding premium of Rs. 5 per debenture) and 6529, 15% Non-convertible debentures of Rs.35 each being the second and third instalments in case of debentures exceeding Rs. 5000 per debenture holder (previous year 1793, 15% Non-convertible debentures of Rs.30 each, (excluding premium of Rs. 5 per debenture) and 6809, 15% Non-convertible debentures of Rs.35 each are secured by way of a first mortgage on immovable properties and a floating charge on movable assets (subject to prior charges created and/or to be created in favour of the Company's Bankers on movable assets for credits obtained for working capital both present and future) in favour of the Debenture Trustees, Industrial Credit and Investment Corporation of India Limited. The charges described above rank pari-passu amongst the Financial Institutions and Banks for term loans referred in note 3 below. As per the terms of the issue the debentures of face value not exceeding Rs. 5000 per debenture holder were redeemed at a premium of Rs.5 per debenture in one instalment on 28.4.1994 and in case of debentures exceeding Rs. 5000 per debenture holder the debentures were redeemed in three instalments i.e. first instalment of Rs. 30 each (excluding premium of Rs. 5 per debenture), second and third instalments of Rs. 35 each which were payable on 28.4.1994, 28.4.1995 and 28.4.1996 respectively.
- Privately placed debentures with Unit Trust of India comprises of 500000, 19% Non-convertible debentures of Rs.40 each (Previous year 500000, 19% Non-convertible debentures of Rs.60 each) redeemable in five equal annual instalments commencing on the expiry of the 5th year from the date of allotment and ending on the expiry of the 9th year from the date of allotment i.e. January 1, 1992. On January 1, 1999, the Company has redeemed the third instalment of debentures @ Rs. 20 per debenture amounting to Rs.100 lacs alongwith premium of Rs.5 per debenture as stipulated.

3. Term loans from banks and financial institutions and privately placed debentures with Unit Trust of India, except for a foreign currency loan from a bank of Rs. 1176.61 lacs (previous year Rs. 994.18 lacs) which is covered by an exclusive first charge on specific machinery are secured by way of a first mortgage on the immovable properties and a first charge by way of hypothecation of all the Company's movable assets, except book debts, both present and future, ranking pari-passu amongst financial institutions and banks, subject to second and subservient charges created in favour of the Company's bankers for working capital requirements in the ordinary course of business.
4. Cash credit and working capital loans from banks are also secured by way of hypothecation of Company's stocks and book debts both present and future.

4) CUSTOMERS' ADVANCES

(Rupees in lacs)

	As at March 31,1999	As at March 31, 1998
CUSTOMERS' ADVANCES		
Booking amount	1036.29	1046.08
Interest accrued	340.39	343.65
	<u>1376.68</u>	<u>1389.73</u>



5) FIXED ASSETS

(Rupees in lacs)

	Gross block (at cost)			Depreciation				Net block		
	As at March 31, 1998	Additions	Deductions	As at March 31, 1999	As at March 31, 1998	For the year	On deductions	As at March 31, 1999	As at March 31, 1999	As at March 31, 1998
Land	1429.31	200.00	-	1629.31 *	-	-	-	-	1629.31	1429.31
Buildings	4584.34	1057.78	12.10	5630.02	557.73	147.63	-	705.36	4924.66	4026.61
Plant and machinery	21350.70	7489.48 **	1151.85	27688.33	8263.01	1884.26	938.17	9209.10	18479.23	13087.69
Furniture, fixtures and office equipment	852.49	147.85	16.55	983.79	298.06	92.62	6.33	384.35	599.44	554.43
Vehicles	400.78	118.28	31.44	487.62	66.49	38.21	10.79	93.91	393.71	334.29
Computer and data processing machines	571.08	314.61	-	885.69	272.42	78.97	-	351.39	534.30	298.66
Total	29188.70	9328.00	1211.94	37304.76	9457.71	2241.69	955.29	10744.11	26560.65	
Previous year	25995.54	3237.61	44.45	29188.70	7604.42	1878.56	25.27	9457.71		19730.99
Capital work in progress (includes capital advances of Rs. 601.20 lacs, previous year Rs. 339.46 lacs)									4302.44	1801.93
									30863.09	21532.92

Note :

* Titles in land amounting to Rs. 1339.53 lacs (previous year Rs. 1139.53 lacs) are yet to be registered in the name of the Company.

**Includes net increase Rs. 727.67 lacs (previous year Rs. 472.16 lacs) due to fluctuation in exchange rates on amounts borrowed for acquisition of assets.

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**6) INVESTMENTS**

(Rupees in lacs)

	As at March 31,1999	As at March 31, 1998
CURRENT INVESTMENTS		
Unquoted		
In Mutual fund units:		
28908770 (Previous year Nil) units of the face value of Rs. 10 each in Prudential ICICI Mutual Fund - Prudential ICICI income plan. Repurchase price Rs. 3153.95 lacs (Previous year Rs. Nil)	3075.00	-
9771030 (Previous year Nil) units of the face value of Rs. 10 each in Birla Mutual Fund- Birla income plus growth plan. Repurchase price Rs.1520.37 lacs (Previous year Rs. Nil)	1475.00	-
8405546 (Previous year Nil) units of the face value of Rs. 10 each in Kotak Mahindra Mutual Fund - K Gilt unit scheme 98 (investment plan) Repurchase price Rs. 867.62 lacs (Previous year Rs. Nil)	850.00	-
6137840 (Previous year Nil) units of the face value of Rs. 10 each in DSP Merrill Lynch Mutual Fund - DSP Merrill Lynch bond fund growth-regular. Repurchase price Rs.773.37 lacs (Previous year Rs. Nil)	750.00	-
4400000 (Previous year Nil) units of the face value of Rs. 10 each in Kothari Pioneer Mutual Fund - Kothari Pioneer income builder account growth plan. Repurchase price Rs.558.80 lacs (Previous year Rs. Nil)	550.00	-
Investment in commercial papers of Hero Honda Finlease Limited (maturity value Rs. 800 lacs.)	757.77	-
LONG TERM INVESTMENTS		
Trade Investments (Unquoted)		
27,15,000 (Previous year 27,15,000) Equity Shares of Rs. 10 each fully paid up of Hero Honda Finlease Limited	346.25	346.25
Other Investments		
Quoted 50 (Previous year 50) shares of Rs. 100 each fully paid up of Housing Development Finance Corporation Limited	0.05	0.05
500 (Previous year 500) shares of Rs. 10 each fully paid up of HDFC Bank Limited	0.05	0.05
Unquoted		
200 (Previous year 200) step discount bonds series - II of Rs. 5000 each of Industrial Development Bank of India Limited	4.00	6.00
84,44,278(Previous year 2,76,44,461) units of the face value of Rs. 10 each of Unit Trust of India - Unit scheme 1964. Repurchase price Rs. 1249.75 lacs (Previous year repurchase price Rs 4091.38 lacs)	1133.09	3702.56
	<u>8941.21</u>	<u>4054.91</u>

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**The following investments were purchased during the year:**

	Cost (Rs. in lacs) This year	Cost (Rs. in lacs) Previous year
28908770 (Previous year Nil) units of the face value of Rs. 10 each in Prudential ICICI Mutual Fund - Prudential ICICI income plan option.	3075.00	-
21700106 (Previous year Nil) units of the face value of Rs. 10 each in Prudential ICICI Mutual Fund - Prudential ICICI liquid plan	2300.00	-
18642454 (Previous year Nil) units of the face value of Rs. 10 each in Birla Mutual Fund- Birla income plus growth plan.	2825.00	-
8405546 (Previous year Nil) units of the face value of Rs. 10 each in Kotak Mahindra Mutual Fund - K Gilt unit scheme 98 (investment plan)	850.00	-
13048161 (Previous year Nil) units of the face value of Rs. 10 each in DSP Merrill Lynch Mutual Fund - DSP Merrill Lynch bond fund growth-regular.	1600.00	-
4400000 (Previous year Nil) units of the face value of Rs. 10 each in Kothari Pioneer Mutual Fund - Kothari Pioneer income builder account growth plan.	550.00	-
3035184 (Previous year 2715670) units of the face value of Rs. 10 each of Unit Trust of India - Unit scheme 1964	412.79	369.33
Investment in commercial papers of Hero Honda Finlease Limited	757.77	-
	<u>12370.56</u>	<u>369.33</u>

The following investments were sold during the year

8871424 (Previous year Nil) units of the face value of Rs. 10 each in Birla Mutual Fund- Birla income plus growth plan.	1350.00	-
6910321 (Previous year Nil) units of the face value of Rs. 10 each in DSP Merrill Lynch Mutual Fund - DSP Merrill Lynch bond fund growth-regular.	850.00	-
21700106 (Previous year Nil) units of the face value of Rs. 10 each in Prudential ICICI Mutual Fund - Prudential ICICI liquid plan	2300.00	-
22235367 (Previous year Nil) units of the face value of Rs. 10 each of Unit Trust Of India - Unit scheme 1964.	2982.26	-
	<u>7482.26</u>	<u>-</u>

	At as March 31, 1999		At as March 31, 1998	
Aggregate value of	Book value	Market value	Book value	Market value
Quoted investments	0.10	1.48	0.10	1.95
Unquoted investments	8941.11	—	4054.81	—
	<u>8941.21</u>	<u>1.48</u>	<u>4054.91</u>	<u>1.95</u>

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**7) CURRENT ASSETS, LOANS AND ADVANCES**

(Rupees in lacs)

	As at March 31,1999	As at March 31, 1998
CURRENT ASSETS		
INVENTORIES		
Stores and spares (at cost)#	1479.41	1037.04
Loose tools (at cost)#	946.84	668.51
Raw materials and components *#	8366.37	5409.93
Finished goods *		
Motorcycles	598.16	76.41
Spare parts	1080.43	750.40
Work in progress *	1127.74	1075.82
	<u>13598.95</u>	<u>9018.11</u>
* Lower of cost and net realisable value		
# Includes imported materials in transit Rs. 3609.54 lacs (Previous year Rs. 2631.12 lacs)		
SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months		
Secured - considered good	9.04	14.04
Unsecured - considered good	5.24	17.61
- considered doubtful	6.68	10.35
Other debts		
Secured - considered good	451.89	554.41
Unsecured - considered good	2189.32	2589.89
	<u>2662.17</u>	<u>3186.30</u>
Less: Provision for doubtful debts	6.68	10.35
	<u>2655.49</u>	<u>3175.95</u>
CASH AND BANK BALANCES		
Cash and cheques in hand	19.70	312.54
With scheduled banks:		
On current accounts	333.26	498.55
On deposit accounts	157.15	455.28
With post office		
On saving account	5.54	-
On deposit account	7.00	-
	<u>522.65</u>	<u>1266.37</u>
OTHER CURRENT ASSETS		
Interest accrued on investments	18.12	1.52
	<u>18.12</u>	<u>1.52</u>
LOANS AND ADVANCES		
(Unsecured and considered good)		
Advances recoverable in cash or in kind or for value to be received *	7127.90	5015.38
Income-tax deducted at source	957.47	821.09
Deposits with companies	1225.00	900.00

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Export incentive receivable	-	0.14
Deposits with excise authorities on current account	868.26	126.81
Provisional deposit with Customs Authorities pending final assessment	138.56	151.04
	<u>10317.19</u>	<u>7014.46</u>

- * Due from an officer of the Company Rs. 0.65 lacs (Previous year Rs. 0.53 lacs);
Maximum amount due during the year Rs. 0.87 lacs (Previous year Rs. 0.85 lacs)

8) CURRENT LIABILITIES AND PROVISIONS

(Rupees in lacs)

	As at March 31, 1999	As at March 31, 1998
A) CURRENT LIABILITIES		
Acceptances	4710.99	3757.72
Sundry creditors:		
Total outstanding dues of small scale industrial undertakings #	34.11	14.29
Total outstanding dues of creditors other than small scale industrial undertakings	<u>13765.57</u>	<u>7041.13</u>
	<u>13799.68</u>	<u>7055.42</u>
Other liabilities *	4974.80	3455.74
Share application money - refundable	2.32	2.32
Unclaimed dividends	40.23	26.42
Interest accrued but not due on loans	40.66	55.88
	<u>23568.68</u>	<u>14353.50</u>
B) PROVISIONS		
Proposed dividend	2502.93	479.25
Provision for taxation less payments	857.39	476.60
Provision for tax on proposed dividend	275.32	47.93
Premium on redemption of debentures	1.08	26.44
Gratuity	160.44	111.80
Leave encashment benefit	34.93	25.38
Warranties	105.08	81.86
	<u>3937.17</u>	<u>1249.26</u>

- * Due to directors Rs. 1.90 lacs (Previous year Rs. 3.31 lacs)

- # The Company does not owe a sum exceeding Rs. 1 lac which is outstanding for more than 30 days.

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9) MISCELLANEOUS EXPENDITURE
(to the extent not written off or adjusted)

(Rupees in lacs)

	As at March 31,1999	As at March 31, 1998
Deferred revenue expenditure:		
On technical know-how fee	430.64	123.21
On leased assets		
- lease management fee	4.84	6.84
- interest paid on capital advances prior to commencement of lease	136.24	189.14
- installation and commissioning charges	230.92	92.67
	<u>802.64</u>	<u>411.86</u>

10) SALES AND OTHER INCOME

(Rupees in lacs)

	Year ended March 31, 1999	Year ended March 31,1998
Sales	153202.65	114532.74
Interest on deposits, bills, bonds etc. (gross)*	1089.28	374.99
Dividend received on long term investments (gross)*	580.08	547.47
Sales promotion assistance	-	120.72
Provision for doubtful debts written back	3.67	0.48
Profit on sale of investments		
On current investments	47.69	
On long term investments	<u>256.10</u>	<u>303.79</u>
		-
Profit on sale of fixed assets	1.32	4.90
Miscellaneous income	109.37	34.12
	<u>155290.16</u>	<u>115615.42</u>

*Income tax deducted at source Rs. 285.58 lacs (Previous year Rs. 145.82 lacs)

11) MANUFACTURING AND OTHER EXPENSES

(Rupees in lacs)

	Year ended March 31, 1999	Year ended March 31,1998
MATERIALS CONSUMED		
Purchase of spares etc. for re-sale	4344.72	3237.54
Consumption of raw materials and components	105759.02	78847.38
Less: Cash discount	223.71	83.30
	<u>105535.31</u>	<u>78764.08</u>
Add: Opening stock		
Motorcycles	76.41	132.30
Spare parts	750.40	738.63
Work in progress	1075.82	674.73
	<u>1902.63</u>	<u>1545.66</u>

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Less: Closing stock		
Motorcycles	598.16	76.41
Spare parts	1080.43	750.40
Work in progress	1127.74	1075.82
	<u>2806.33</u>	<u>1902.63</u>
Net consumption	108976.33	81644.65
Less: Scrap sales	444.83	373.10
	<u>108531.50</u>	<u>81271.55</u>
OTHER EXPENSES *		
Payments to and provisions for employees:		
Salaries, wages, bonus, gratuity and leave encashment benefit	5299.08	4236.74
Contribution to provident and other funds	312.57	215.42
Staff welfare expenses	560.54	468.52
Expenses for manufacturing, administration and selling		
Stores and tools consumed	3635.14	3255.28
Excise duty	287.80	265.90
Power and fuel	1233.81	926.04
Rent	173.13	150.35
Repairs and maintenance:		
Plant and machinery	1039.49	612.76
Buildings	227.20	157.91
Others	215.33	168.53
Exchange fluctuation	508.31	173.06
Insurance	362.32	270.99
Rates and taxes	74.61	45.62
Packing, forwarding, freight etc.	2708.95	1992.54
Royalty	1207.66	974.53
Advertisement and publicity	2601.42	2321.01
Commission	128.32	206.85
Donations**	18.81	22.36
Lease rent on plant and machinery	1881.63	1480.64
Provision for doubtful debts	-	2.28
Other expenses	3360.53	2563.37
Loss on fixed assets sold/discarded	184.15	6.67
	<u>134552.30</u>	<u>101788.92</u>

* Research and development expenses of Rs. 300.82 lacs (Previous year Rs. 315.92 lacs) have been charged to respective heads.

** Donations includes Rs. Nil (previous year Rs. 20 lacs) contributed to two political parties i.e. Rs. 10 lacs each to Bhartiya Janta Party and All India Congress Committee.

12) FINANCE CHARGES

(Rupees in lacs)

	Year ended March 31, 1999	Year ended March 31, 1998
Interest on loans for fixed period including debentures	411.51	515.65
Other interest and financial charges	350.54	275.30
	<u>762.05</u>	<u>790.95</u>

13) NOTES TO THE ACCOUNTS**1) SIGNIFICANT ACCOUNTING POLICIES****i) Accounting convention**

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards and relevant presentational requirements of the Companies Act, 1956.

ii) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Cost of acquisition is inclusive of freight, duties, taxes and other incidental expenses and in the case of plant and machinery, interest on loan taken for the acquisition of assets upto the date of commissioning of assets. Roll over charges on forward exchange contracts and loss or gain on conversion of foreign currency liabilities for acquisition of fixed assets are added to or deducted from the cost of the assets.

Depreciation is charged on a pro-rata basis at the straight line method rates prescribed in schedule XIV to the Companies Act, 1956, except where the historical cost of a depreciable asset has undergone a change due to increase or decrease in long term liability on account of exchange fluctuations, the depreciation on the revised unamortised depreciable amount is provided prospectively over the residual useful life of the asset.

iii) Investments

Current investments are stated at lower of cost and fair value and long term investments are stated at cost.

iv) Inventories

Stores and spares and loose tools are stated at cost.

Raw materials and components, finished goods and work in progress are valued at cost or net realisable value, whichever is lower.

The basis of determining cost for various categories of inventories are as follows:-

Stores and spares,
loose tools, raw
materials and
components

- Monthly weighted
average

Materials in transit - Actual cost

Work in progress

and finished goods - Material cost plus
appropriate share of
labour and manufactur-
ing overheads.

v) Excise duty

Excise duty payable on finished goods is accounted for on clearance of goods from the factory. The amount of excise duty payable on finished goods not cleared from the factory as at March 31, 1999 is estimated at Rs 174.60 lacs (Previous year Rs. 20.87 lacs). However non provision of this liability will not affect the profit for the year.

vi) Retirement benefits

The Company has various schemes of retirement benefits such as provident fund, superannuation, gratuity and leave encashment benefit. The Company's contributions to the provident and superannuation funds and the provision for gratuity and leave encashment benefit determined on an actuarial basis are charged against revenue every year.

vii) Foreign currency transactions

Exchange differences are dealt with as follows:-

Transactions in foreign currency are recorded at the exchange rate prevailing at the time of the transaction. In case of long term loans incurred for the acquisition of fixed assets, the loss or gain on conversion (at the rates prevailing at the year end or at the forward rates where forward cover has been taken) is included in the carrying amount of the related fixed assets.

Current assets, (other than inventories) and current liabilities, (other than relating to fixed assets) are restated at the rates prevailing at the year end or at the forward rates where forward cover has been taken and the difference between the year end rate / forward rate and the exchange rate at the date of the transaction is recognised as income or expense over the life of the contract and is taken to the profit and loss account.

viii) Sales

Sale of goods is recognised at the point of despatch of finished goods to the customers. Sale of motorcycles is inclusive of freight and is net-off excise duty.

ix) Scrap

Scrap sale is accounted for on sale basis. No inventory is taken as the amounts are not material.

**x) Warranty claims**

Warranty costs are provided on accrual basis on the total sales of motorcycles during the year, which is based on past experience of claims.

xi) Research and development expenses

Research and development expenditure of a revenue nature is expensed out under the respective heads of account in the year in which it is incurred. Expenditure which results in creation of capital assets is treated in the same way as expenditure on other fixed assets.

xii) Taxation

The provision for taxation is ascertained on the basis of assessable profits computed in accordance with the provisions of the Income Tax Act, 1961.

xiii) Miscellaneous expenditure

Deferred revenue expenditure comprises of :-

- a. Expenditure incurred on installation and commissioning of assets taken on lease; interest paid on capital advances released by lessor prior to commencement of lease; and management fee paid under the lease agreement, are amortised over the lease period of five years as the benefit will flow over this tenure
- b. Expenditure incurred on technical know-how fee relating to new productive facilities and processes at the Gurgaon plant is amortised over a period of three years.

2. CONTINGENT LIABILITIES :

	This year (Rs. in lacs)	Previous year (Rs. in lacs)
i) Bills discounted	44.27	101.49
ii) In respect of excise cases pending at various stages of appeal with the authorities	—	0.29
iii) In respect of income tax cases pending at various stages of appeal with the authorities	334.19	4.64
iv) Claims against the company not acknowledged as debts	54.79	3.66
v) Guarantees given to banks / others in respect of credit facilities availed by : Other Companies	150.00	220.00
Amount utilised	150.00	153.47

3. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) is Rs. 1264.68 lacs (Previous year Rs. 955.97 lacs) .

4. Commitments under lease agreements

The Company has entered into lease agreements for the rental of plant and machinery. Typically, lease rentals are for a period of five years. As at March 31, 1999, the Company had commitments under the lease agreements of Rs. 7974.10 lacs (Previous year Rs. 3496.75 lacs).

5. Customs duty on imported components was being

provisionally charged upto July 1995, after an adhoc loading of 1.5 % to the invoice value (% of assessed duty upto 30.12.86) and paid by the Company under protest, amounting to Rs. 138.56 lacs (Previous year Rs. 151.04 lacs). The Company's appeal against the adhoc loading had earlier been decided in its favour by the Collector Customs (Appeals) and confirmed by CEGAT, and subsequently upheld by the Supreme Court of India vide order dated October 13, 1995. The Company has filed its refund claims with the customs authorities, which is in process.

6. Previous year's figures have been recast wherever necessary.

14) ADDITIONAL INFORMATION**a) Details of capacity and production:**

Class of goods	Units	Licensed capacity*		Installed capacity**		Actual Production***	
		<u>This year</u>	<u>Previous year</u>	<u>This year</u>	<u>Previous year</u>	<u>This year</u>	<u>Previous year</u>
Motorised two wheelers upto 350CC engine capacity	Nos.	200000	200000	650000	500000	532738	407297

* The Company's products are exempt from Licensing requirements under New Industrial Policy in terms of Notification no. s.o.477(E) dated 25th July,1991.

** On double shift basis and as certified by the management and relied on by the auditors being a technical matter.

*** Includes 52 (previous year 18) motorcycles produced and capitalised during the year.

b) Particulars in respect of opening stock, purchases, sales and closing stock for each class of goods dealt with by the Company:

Class of goods Units		Opening Stock				Purchases			
		<u>This year</u>		<u>Previous year</u>		<u>This year</u>		<u>Previous year</u>	
		Qty.	Value (Rs. in lacs)	Qty.	Value (Rs. in lacs)	Qty.	Value (Rs. in lacs)	Qty.	Value (Rs. in lacs)
Motorcycles	Nos.	343	76.41	610	132.30	-	-	-	-
Spares	-	*	750.40	*	738.63	*	4344.72	*	3237.54
Miscellaneous	-	-	-	-	-	**	-	**	-
			<u>826.81</u>		<u>870.93</u>		<u>4344.72</u>		<u>3237.54</u>

Class of goods Units		Sales				Closing Stock			
		<u>This year</u>		<u>Previous year</u>		<u>This year</u>		<u>Previous year</u>	
		Qty.	Value (Rs. in lacs)	Qty.	Value (Rs. in lacs)	Qty.	Value (Rs. in lacs)	Qty.	Value (Rs. in lacs)
Motorcycles	Nos.	530545++	141345.24	407546++	105285.38	2484	598.16	343	76.41
Spares	-	*	7059.06	*	5840.41	*	1080.43	*	750.40
Miscellaneous	-	**	4798.36	**	3406.94	-	-	-	-
			<u>153202.66</u>		<u>114532.73</u>		<u>1678.59</u>		<u>826.81</u>

* It is not practicable to furnish quantitative information in view of the considerable number of items diverse in size and nature.

** Excludes components purchased and sold for re-processing and bought-back.

++ Excluding 52 (previous year 18) motorcycles capitalised.

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**c) Raw materials and components consumed:**

Class of goods	Unit	This year		Previous year	
		Quantity	Value (Rs. in lacs)	Quantity	Value (Rs. in lacs)
Steel Sheets	MT	10858	3257.56	9092	2472.18
Components		*	102501.46	*	76375.20
Total			105759.02**		78847.38**

* It is not practicable to furnish quantitative information of components consumed in view of the considerable number of items diverse in size and nature.

** Excludes Rs. 16.55 lacs (Previous year Rs.4.26 lacs) for motorcycles produced and capitalised during the year.

d) CIF Value of imports:

Class of goods	This year (Rs. in lacs)	Previous year (Rs. in lacs)
Capital goods*	5141.55	495.41
Raw materials	1344.75	459.41
Components, spare parts and others	15032.48	10319.96

* Excludes Rs.729.35 lacs (Previous year Rs.472.16 lacs) capitalised due to net variation in exchange rates in respect of foreign currency loans.

e) Value of imported and indigenous raw materials, components and spares consumed and percentage of each to the total consumption:

Class of goods	This year		Previous year	
	Value (Rs. in lacs)	Percentage	Value (Rs. in lacs)	Percentage
Raw materials:				
-Imported	1313.47	1.24	458.66	0.58
-Indigenous	1903.83	1.80	2013.52	2.55
Components:				
-Imported	15679.37	14.83	10917.44	13.85
-Indigenous	86862.35	82.13	65457.76	83.02
	105759.02 *	100.00	78847.38	100.00
Spares consumed (charged to repairs and maintenance)				
-Imported	462.34	44.48	197.09	32.16
-Indigenous	577.15	55.52	415.67	67.84
	1039.49	100.00	612.76	100.00

* Excludes Rs. 16.55 lacs (Previous year Rs.4.26 lacs) for motorcycles produced and capitalised during the year.

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**f) Expenditure in foreign currency (on cash basis):**

	This year (Rs. in lacs)	Previous year (Rs. in lacs)
Royalty*	311.21	736.18
Technical guidance fee*	130.13	94.43
Technical knowhow fee*	340.29	-
Export commission	200.33	136.60
Travel and other accounts	140.73	79.86
Interest etc.	372.69	410.09
Advertisement and Publicity	418.99	83.90
*(Net of tax)		

g) Earnings in foreign currency:

	This year (Rs. in lacs)	Previous year (Rs. in lacs)
FOB value of exports	4543.39	5917.05
Freight and insurance	100.03	87.99
Sales promotion assistance	-	120.72
Others	4.28	6.30

h) Managerial remuneration:

	This year (Rs. in lacs)	Previous year (Rs. in lacs)
Remuneration	55.84	44.68
Commission	331.00	200.00
Directors' fee	0.32	0.26
	387.16	244.94

Computation of net profits in accordance with Section 198 of the Companies Act,1956.

	This year (Rs. in lacs)	Previous year (Rs. in lacs)
Profit before taxation as per profit and loss account	17273.53	10954.40
Add:-		
Depreciation as per profit and loss account	2241.69	1878.56
Managerial remuneration	387.16	244.94
Provision for doubtful debts	-	2.28
Loss on fixed assets sold/discarded as per profit and loss account	184.15	6.67
Profit on fixed assets sold/discarded as per section 350 of the Companies Act,1956	3.61	6.36

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**Less:-**

Depreciation as per section 350 of the Companies Act, 1956	3424.02	3039.94
Provision for doubtful debts written back	3.67	0.48
Profit on sale of fixed assets as per profit and loss account	1.32	4.90
Loss on fixed assets sold/discarded as per section. 350 of the Companies Act, 1956	82.59	3.80
Net profit as per section 349 of the Companies Act, 1956	<u>16578.54</u>	<u>10044.09</u>
Commission @ 1% of the above profit for each of the two directors	331.57	200.88
Restricted to	331.00	200.00

i) Provision and/or payment in respect of Auditors' Remuneration:

	This year (Rs. in lacs)	Previous year (Rs. in lacs)
a) As auditors (Audit fee)	7.50	6.50
b) Miscellaneous certificates	1.90	1.30
c) Out of pocket expenses	0.22	0.13

j) Amount remitted in foreign currencies towards dividends during the year:

	This year			Previous year		
	No. of Non-Resident shareholders	No. of equity shares held	Dividend remitted (Rs. in lacs)	No. of Non-Resident shareholders	No. of equity shares held	Dividend remitted (Rs. in lacs)
1996-97 Final	-	-	-	1	5191875	83.07
1997-98 Interim	-	-	-	1	5191875	98.64
1997-98 Final	1	5191875	124.60	-	-	-
			124.60			181.71

RAVI SUD
Vice President-Finance
ILAM C. KAMBOJ
Company Secretary
May 12, 1999
New Delhi

BRIJMOHAN LALL MUNJAL
Chairman and Managing Director
M.P. WADHAWAN
O.P. GUPTA
Directors

TAKEHIKO NAKAJIMA
Joint Managing Director
PAWAN KANT MUNJAL
MATSUO YAMASAKI
Whole-Time Directors



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PART IV

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No.	17354
State Code	55
Balance Sheet Date	31.03.99

II. Capital Raised during the year Amount (Rs. in lacs) :

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	1996.88	Private Placement	Nil

III. Position of Mobilisation and Deployment of Funds Amount (Rs. in lacs) :

Total Liabilities	40213.49	Total Assets	40213.49
Source of Funds		Application of Funds	
Paid-Up Capital	3993.75	Net Fixed Assets	30863.09
Reserves & Surplus	26063.92	Investments	8941.21
Secured Loans	6619.11	Net Current Assets	(393.45)
Unsecured Loans	2160.03	Misc. Expenditure	802.64
Customer's Advances	1376.68		

IV. Performance of Company Amount (Rs. in lacs) :

Turnover	155290.16
Total Expenditure	138016.63
Profit Before Tax	17273.53
Profit After Tax	12137.08
Earning Per Share *	Rs. 40.34
Dividend Rate *	50%
One time millennium dividend	25%

* On pro-rata basis

V. Generic Names of Three Principal Products / Services of Company (as per monetary terms)

Item Code No. (ITC Code)	87112003
Product Description	Motorised two wheelers upto 350cc engine capacity

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ILAM C. KAMBOJ
Company Secretary
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Joint Managing Director
PAWAN KANT MUNJAL
MATSUO YAMASAKI
Whole-Time Directors

**AUDITORS' CERTIFICATE**

We have examined the attached Cash Flow Statement of Hero Honda Motors Limited for the year ended March 31, 1999. The Statement has been prepared by the Company in accordance with the requirements of the listing agreement Clause 32 with Ahmedabad, Calcutta, Delhi, Ludhiana and Mumbai Stock Exchanges and is based on and in agreement with the corresponding profit and loss account and balance sheet of the Company covered by our report of May 12, 1999 to the members of the Company.

For A. F. FERGUSON & CO.
Chartered Accountants

A.K. MAHINDRA
Partner

May 12, 1999
New Delhi



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**CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 1999**

(Rupees in lacs)

	Year ended March 31, 1999	Year ended March 31, 1998
A. Cash Flow from Operating Activities		
Net Profit before tax and Extraordinary Activities	17273.53	10954.40
Adjustments for:		
Add: Depreciation	2241.69	1878.56
Loss on fixed assets sold/discarded	184.15	6.67
Finance charges	762.05	790.95
Provision for bad and doubtful debts	0.00	2.28
Miscellaneous expenditure written off	460.59	202.59
	3648.48	2881.05
Less: Interest/Dividend Received	1669.36	922.46
Exchange Fluctuation	213.40	46.20
Profit on sale of investments	303.79	0.00
Provision for Doubtful Debts Written Back	3.67	0.48
Profit on sale of fixed assets	1.32	4.90
	2191.54	974.04
Operating Profit before Working Capital Changes	18730.47	12861.41
Adjustments for:		
Add: Increase in trade payables	9542.82	1358.84
	9542.82	1358.84
Less: Increase in trade and other receivables	2277.35	1185.95
Increase in inventories	4580.84	2199.79
	6858.19	3385.74
Cash Generated from Operations	21415.10	10834.51
Less: Interest paid	780.53	778.02
Direct taxes paid	4892.04	3597.36
	5672.57	4375.38
Cash flow before extraordinary items	15742.53	6459.13
Extraordinary items	—	—
Net cash from operating activities	15742.53	6459.13
B. Cash Flow from Investing Activities		
Purchase of fixed assets	11100.84	3338.11
Miscellaneous expenditure	851.37	11.63
Deposits with companies	325.00	0.00
Purchase of investments	12370.57	369.33
	24647.78	3719.07
Less: Sale of fixed assets	73.82	17.41
Sale of investments	7788.05	2.00
Interest received	1072.68	376.74
Dividend received	580.08	547.47
	9514.63	943.62
Net Cash Used in Investing Activities	15133.15	2775.45

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**C. Cash Flow from Financing Activities**

Proceeds from long term borrowings	<u>1049.21</u>	1098.85
	<u>1049.21</u>	1098.85
Less: Repayments of long term borrowings	<u>2818.90</u>	1432.66
Dividend paid	465.44	699.75
Tax on dividend	47.93	69.90
Repayment of customers' booking advance	9.79	10.76
	<u>3342.06</u>	<u>2213.07</u>
Net Cash from Financing Activities	<u>(2292.85)</u>	<u>(1114.22)</u>
Increase in Cash and Cash Equivalents	<u>(1683.47)</u>	<u>2569.46</u>
Cash and Cash Equivalents at the beginning of the Period	1259.04	(1310.42)
Cash and Cash Equivalents at the end of the Period (See Note -1)	(424.43)	1259.04

NOTES TO THE CASH FLOW STATEMENT**1. Cash and Cash Equivalents**

Cash and cash equivalents consist of Cash and Bank balances, Cash credit, Working capital loans and Packing Credit Loan from banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

(Rupees in lacs)

	As at March 31, 1999	As at March 31, 1998
Cash and Bank Balances	522.65	1266.37
Cash Credit from Banks	(578.56)	—
Working Capital loans from Banks	(210.00)	—
Short term loans from Banks	(10.92)	(7.33)
Packing Credit Loan	(147.60)	—
Cash and Cash equivalents	(424.43)	1259.04

Per our report attached
For A.F. FERGUSON & CO.
 Chartered Accountants

A.K. MAHINDRA
 Partner

RAVI SUD
Vice President-Finance
ILAM C. KAMBOJ
Company Secretary
 May 12, 1999
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Joint Managing Director
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Whole-Time Directors

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FINANCIAL INFORMATION FOR THE YEAR ENDED MARCH 31, 1999 PREPARED IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP)

BALANCE SHEET AS AT MARCH 31, 1999

(Rs. in million)

	1999	1998
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	52.27	126.64
Trade accounts receivables	265.55	317.60
Inventories	1359.89	901.81
Deposits with affiliated company	122.50	30.00
Pre-paid expenses and other current assets	897.18	596.48
Total current assets	2697.39	1972.53
Investment (held to maturity securities)	203.04	370.87
Investment in mutual funds	687.41	-
Investment in affiliate, at equity	51.01	42.49
Subordinate loan to affiliated company	-	60.00
Other assets	13.86	15.09
Property, plant and equipment	3401.17	2419.22
Total assets	7053.88	4880.20
LIABILITIES		
CURRENT LIABILITIES		
Trade accounts payable	1851.07	1081.30
Accrued expenses	14.68	16.42
Indian income taxes	85.74	47.66
Compensation and benefits	19.54	13.72
Other current liabilities	734.11	488.16
Long term debt due within one year	270.33	355.83
Total current liabilities	2975.47	2003.09
Deferred income taxes	254.14	249.77
Long-term debt	1084.90	937.15
Total liabilities	4314.51	3190.01
STOCKHOLDERS' EQUITY		
Common stock, par value; Rs. 10		
Authorised 50,000,000: (1998 - 25,000,000)		
Outstanding shares 39,937,500 (1998 - 19,968,750)	399.38	199.69
Capital surplus	0.03	0.03
Retained earnings	2339.96	1490.47
Total stockholders' equity	2739.73	1690.19
Total liabilities and stockholder's equity	7053.88	4880.20

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STATEMENT OF INCOME FOR THE YEAR ENDED MARCH 31, 1999

(Rs. in million
except per share)

	1999	1998
Net sales	15320.27	11490.58
Cost of goods sold	12698.34	9546.96
Selling, administrative and general expenses	1029.77	807.86
Other (income) and expense	(190.34)	(102.63)
Interest expense	163.98	160.71
Total expense	13701.75	10412.89
Income before income taxes	1618.52	1077.69
Indian taxes on income	518.02	324.65
Net income	1100.50	753.04
Net income per share - (Rs.)	27.56	37.71
Average common stock outstanding	39,937,500	19,968,750

RECONCILIATION OF NET INCOME AS PER US GAAP ACCOUNTS AND AUDITED ACCOUNTS AS PER INDIAN COMPANIES ACT 1956.

(Rs. in million)

	1999	1998
Net Profit after tax for the year as per audited accounts	1213.71	766.04
Add/(Less): Profit/(Loss) of		
- Income from investment affiliate company	8.52	(1.22)
other	(8.51)	-
- Exchange fluctuations	(72.77)	(47.22)
- Depreciation effect of exchange fluctuations	7.31	26.10
- Depreciation on leased assets	(113.59)	(86.79)
- Lease rentals paid	197.05	153.90
- Interest portion of lease rentals (IRR)	(87.77)	(81.62)
- Provision for deferred tax	(4.37)	4.75
- Deferred revenue expenditure	(39.08)	19.10
Net Income as per US GAAP	1100.50	753.04

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SHAREHOLDERS' INFORMATION

1. Dates of book closure : Monday, the July 5, 1999 to
Saturday, the July 10, 1999.(both days inclusive)
2. Date 5th August, 1999
Day Thursday
Time and 10.30 A.M.
Venue of Airforce Auditorium, Subroto Park,
Annual General Meeting: New Delhi 110 010
3. Dividend payment: On or after 6th August, 1999 but with in the
statutory time limit i.e. latest by 16th Sept., 1999.
4. Listing on stock exchanges Delhi, Mumbai, Calcutta, Ahmedabad, and Ludhiana
5. Stock market data
 - a) The Company's market capitalisation is included in the computation of the BSE 200 Index, BSE Forward Group and S & P CNX Nifty.
 - b) Monthly high and low quotations as well as the volume of shares traded at Mumbai, Delhi and National Stock Exchanges.

	BSE			DSE			NSE		
	Highest Rs.	Lowest Rs.	Volume Nos.	Highest Rs.	Lowest Rs.	Volume Nos.	Highest Rs.	Lowest Rs.	Volume Nos.
April, 1998	1235.00	871.00	401516	1220.00	898.00	30250	1226.80	900.00	428150
May	1310.00	980.00	278318	1290.00	990.00	21050	1310.00	970.00	232300
June	1120.00	763.00	505183	1090.00	790.00	20900	1115.00	775.00	922100
July	945.00	752.25	338304	929.90	755.00	19350	951.00	748.00	427900
August	979.00	471.25	284407	975.00	495.00	7750	976.00	450.00	478350
September	670.00	555.00	339587	663.00	551.00	8550	684.00	550.20	382350
October	624.00	553.25	390915	609.90	566.00	13650	627.00	542.00	277400
November	585.00	528.00	254583	577.50	531.50	24500	582.00	525.00	177750
December	582.00	531.25	449847	575.00	540.00	5450	575.80	500.00	407050
January, 1999	642.75	541.00	1183948	635.00	541.50	14700	649.00	541.10	817650
February	800.00	586.00	986641	702.00	595.00	43850	719.00	580.00	536194
March	900.00	718.00	461188	900.00	725.00	98250	900.00	712.00	246080
Total			5874437			308250			5333274

6. Share transfer system
Share transfers would be registered and returned within a period of 15 days from the date of receipt, if the documents are in order in all respects. The Share Transfer Committee meets at least four times in a month. The total number of shares transferred during the year 1998-99 was 1488082.
7. Distribution of shareholding as on March 31, 1999.

No of Equity Shares held	Mode of holding	Folios		Shares	
		Numbers	%	Numbers	%
Up to 500	Physical	39672	94.45	3921946	9.82
	Electronic	940	2.24	90791	0.23
501-1000	Physical	706	1.68	493450	1.24
	Electronic	44	0.11	35550	0.09
1001-2000	Physical	312	0.74	433746	1.09
	Electronic	22	0.05	33206	0.08
2001-3000	Physical	64	0.15	147765	0.37
	Electronic	7	0.02	17859	0.04
3001-4000	Physical	29	0.07	99795	0.25
	Electronic	6	0.01	22372	0.06
4001-5000	Physical	13	0.03	61229	0.15
	Electronic	-	-	-	-
5001-10000	Physical	59	0.14	392707	0.98
	Electronic	11	0.03	92008	0.23
10001 and above	Physical	41	0.10	24218185	60.64
	Electronic	76	0.18	9876891	24.73
		42002	100	39937500	100

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8. Categories of shareholders as on March 31, 1999.

Categories	Mode of Holding	No. of Folios	No. of Shares	Voting Strength (%)
Individuals & HUF	Physical	40495	7574022	18.96
	Electronic	904	150178	0.38
Companies	Physical	258	503345	1.26
	Electronic	90	90301	0.23
NRI's FII's OBCs	Physical	83	201044	0.50
	Electronic	66	6032566	15.11
Mutual Funds, Banks, FI's	Physical	54	547764	1.37
	Electronic	46	3895632	9.75
Foreign Collaborators	Physical	1	10383750	26.00
	Electronic	-	-	-
Promoters	Physical	5	10383742	26.00
	Electronic	-	-	-
Shares in transit in NSDL			175156	0.44
Total		42002	39937500	100

9. Geographical distribution of shareholders as on May 31, 1999

City	No. of folios	% age	No of shares	% age
Mumbai	9073	22.85	13535757	33.89
Ludhiana	412	1.04	11602152	29.05
Tokyo (Japan)	1	0.00	10383750	26.00
New Delhi	6154	15.50	1517592	3.80
Calcutta	2020	5.09	241348	0.60
Ahmedabad	2375	5.98	236521	0.59
Chennai	1340	3.38	162218	0.41
Bangalore	1361	3.43	158504	0.40
Pune	1352	3.41	157615	0.39
Vadodara	801	2.02	90015	0.23
Hyderabad	809	2.04	86072	0.22
Jaipur	631	1.59	71968	0.18
Others	13372	33.68	1693988	4.24
Total	39701	100	39937500	100

10. Dematerialisation of shares and liquidity.

The Company signed an agreement with National Securities Depository Limited (NSDL) on 4th November, 1997 so that shareholders of the Company could avail the benefits of the Depository system. In order to update the knowledge with respect to this new system a booklet - Your Guide to Depository System was sent to all the shareholders in the beginning of 1998. **The working group constituted by SEBI has made the delivery of the shares of your Company in compulsory dematerialised form with effect from 15th February 1999.** With this, the problems associated with the physical delivery will now be reduced to a large extent. Out of the Public holding around 58% of the total Shares have already been dematerialised.

11. Economic Value Added Statement

The company has always Strived for creating value for its shareholders which is evident from the EVA trend given below:

What is EVA?

Economic Value Added (EVA) measures the difference between the return on a company's capital and the cost of that capital. In business, the revenue earned from customers is distributed amongst various stakeholders - suppliers for their goods and services provided, creditors for their capital lent and employees for their services rendered. Depreciation is charged to the revenue account since it signifies the use of assets, whereas taxes are paid to the government. The residual is accounting profit, which belongs to the shareholders. However, the equity capital provided by the shareholders also carries a cost since there is a risk involved in putting money into a business. Thus value is created only when a business earns returns over the cost of all capital, i.e. including the cost of risk capital. This is precisely what EVA attempts to measure. A positive EVA indicates that value has been created for shareholders, whereas a negative EVA signifies value destruction.

How is EVA calculated ?

$EVA = \text{Net Operating Profit after Taxes (NOPAT)} - \text{Cost of Capital Employed (COCE)}$

NOPAT = Profit after taxes but before interest cost. It signifies returns available to the lenders and shareholders

$COCE = \text{Weighted Average Cost of Capital (WACC)} (*) \text{ Average Capital Employed}$

where $WACC = \text{Post tax cost of debt capital plus cost of equity capital}$

Weights have been taken at market value for equity capital and at book value for other capital.

Cost of debt capital has been taken at actual basis, whereas the cost of equity capital has been calculated in the following manner:

$\text{Cost of equity capital} = \text{Cost of risk free capital plus Beta} * (\text{Market risk Premium})$

where Beta measures the sensitivity of the return on a security to the return on a market portfolio.

EVA TREND

(Rs. in million)

	94-95	95-96	96-97	97-98	98-99
Avg Cap Employed	1320	1493	2106	2830	3556
Avg Debt/Avg Capital (%)	8.7	8.5	11.6	7.5	3.2
Avg Customer Advances/Avg Capital (%)	2.6	2.4	2.0	1.1	0.5
Avg Equity/Avg Capital (%)	88.7	89.1	86.4	91.4	96.3
Cost of Debt (% post-tax)	7.6	6.5	6.3	5.4	5.6
Cost of Equity					
Beta	0.65	0.65	0.65	0.65	0.65
Cost of Risk Free Debt (%)	13	14	13.56	12.15	12.05
Market Premium (%)	10	10	10	10	10
Cost Of Equity (%)	19.5	20.5	20.1	18.7	18.6
Profit after Tax	195	265	504	767	1214
Add: Interest*(1-tax rate)	37	32	50	51	50
NOPAT= PAT + Interest*(1-t)	231	297	554	818	1264
Cost of Capital	237	281	380	494	642
EVA	-5	16	174	324	622
Return on Capital Employed (%)	17.5	19.9	26.3	28.9	35.5
Weighted Average Cost of Capital (%)	17.9	18.8	18.1	17.5	18.1
EVA/Capital employed (%)	-0.4	1.1	8.2	11.5	17.5
ENTERPRISE VALUE					
Market Capitalisation	4490	5791	5986	17448	34955
Add: Debt	442	541	1041	878	878
Less: Financial Assets	340	397	459	496	1017
EV (Enterprise Value)	4591	5935	6568	17831	34817
EV/Yr. End Capital Employed (Times)	3.4	3.6	2.6	5.8	8.7



12. Financial calendar (tentative and subject to change)

Financial reporting for the first quarter ending June 30, 1999	July, 1999
Financial reporting for the second quarter ending Sept. 30, 1999	Oct, 1999
Financial reporting for the third quarter ending Dec 31, 1999	Jan, 2000
Financial results for the year ending March 31, 2000	Apr, 2000
Annual General Meeting for the year ending March 31, 2000	Jun, 2000

13. Nomination Request:

It is in the interest of the shareholder to appoint nominee in whom all rights in respect of his shares shall vest in the event of the death of the share holder. A format of nomination request form is enclosed here with to facilitate the share holder(s). You are requested to kindly submit the form duly filled, in duplicate; to enable us to send an acknowledgement therefrom.

14. Accounts as per US GAAP

The full copy of accounts as per US GAAP can be obtained by writing to Mr. Ravi Sud/Mr. S. Chhabra at Company's regd. office.

15. Investors' correspondence may be addressed to:

Mr. Ilam C. Kamboj,
Company Secretary,
34, Community Centre, Basant Lok, Vasant Vihar, New Delhi-110057
Tel. : 614 2451, 614 4121 Fax : 614 3321

Or at the Registrars' office

MCS Limited

Sri Venkatesh Bhawan

212 A, Shahpur Jat, Behind Panchsheel Club, New Delhi-110016

Tel. : 649 4830, 31 Fax : 649 4152

Queries relating to the financial statements of the Company can be addressed to:

Mr. Ravi Sud

Vice President - Finance

16. Reuters Code: HROH.BO (Bombay Stock Exchange)
HROH.NS (National Stock Exchange)

CORPORATE GOVERNANCE

Board of Directors

The Board of Directors, as on date comprises ten directors, four Whole-Time Directors and Six non executive Directors. The non executive directors are on the Board since the beginning of the Company i.e 1984-85. The Chairman of the Company is also the Managing Director of the Company. The Board meets regularly and is responsible for the proper management of the Company .

The Company Secretary who is the Compliance Officer also of the Company is responsible to the Board for ensuring that board procedures are followed and that the proper compliance of all applicable laws, rules and regulations are made and provide assistance to the Board from time to time with respect to matters of concerns relating to the laws, rules and regulations.

During the financial year ended March 31, 1999, the Board met 5 times and the attendance of various board members are as under:

Director	Whole-Time/ Non-executive Director	No. of Meetings	
		Held	Attended
Brijmohan Lall Munjal	Whole-Time Director	5	5
Takehiko Nakajima	Whole-Time Director	5	5
Pawan Kant Munjal	Whole-Time Director	5	5
Matsuo Yamasaki	Whole-Time Director	5	4
Om Prakash Munjal	Non-executive Director	5	1
Satyanand Munjal	Non-executive Director	5	1
M.P.Wadhawan	Non-executive Director	5	5
O.P.Gupta	Non-executive Director	5	5
S.P.Virmani	Non-executive Director	5	4
Teruo Fujisaki	Non-executive Director	5	1
Yoshijiro Kobayashi	Non-executive Director	5	-

AUDIT SUB-COMMITTEE

In addition, the board has appointed an audit sub-committee with specific responsibilities with the following members :

Mr. M.P.Wadhawan

Mr. O.P.Gupta

Responsibilities :

- To deal with accounting matters, financial reporting and internal controls.;
- To provide overall direction on the risk management function of the Company;
- To review the internal audit reports and interact with both internal and external auditors, as and when necessary, to ensure that the accounts of the Company are properly maintained and the transactions are in accordance with prevailing laws and regulations.;
- To review the annual and interim financial statements before they are submitted to the Board.;
- To monitor proposed changes in the accounting policies.;
- To review the internal audit functions including the quality of internal and management audit.;
- To discuss and review the accounting implications of major transactions.;
- To review the mechanism of ensuring legal Compliances and recommend the measures to improve legal compliances.;
- To review the cost audit reports and if necessary, to interact with cost auditors.;
- To review inventory norms, slow moving items, dead stock, OSP stocks etc.
- To review tax audit reports and if necessary interact with the tax auditors.;
- To discuss the budget and variance analysis.

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Nomination Request Form
(For Shares held in physical form)
(To be Submitted in Duplicate)

To,
 Hero Honda Motors Limited
 34, Community Centre,
 Basant Lok, Vasant Vihar,
 New Delhi - 110 057.

From _____

Folio No. _____

No. of Shares _____

I am / we are holder(s) of Shares of the Company as mentioned above. I/We nominate the following person(s) in whom all rights of transfer and/or amount payable in respect of shares shall vest in the event of my/our death.

Nominee's name												Age					
To be furnished in case the nominee is a minor										Date of Birth							
Guardian's Name *																	
Occupation of Nominee Tick (✓)	1	Service		2	Business		3	Student		4	Household						
	5	Professional		6	Farmer		7	Others									
Nominee's Address																	
												Pin Code					
Telephone No.												Fax No.					
Email Address												STD Code					
Specimen signature of Nominee/ Guardian (in case nominee is a minor)																	

*To be filled in case nominee is a minor

Kindly take the aforesaid details on record.

Thanking you,
 Yours faithfully,

Name of the holders(s) (as appearing on the Certificate(s))		Signature as per specimen recorded with company
Sole/ 1 st holder		
2 nd holder		
3 rd holder		
4 th holder		

Signature of two Witnesses

Name and Address		Signature with date
1.		
2.		

INSTRUCTIONS:

1. Please read the instructions given below very carefully and follow the same to the letter. If the form is not filled as per instructions, the same will be rejected.
2. The nomination can be made by individuals only. Non individuals including society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family, holder of power of attorney cannot nominate. If the shares are held jointly, all joint holders will sign (as per the specimen registered with the Company) the nomination form.
3. A minor can be nominated by a holder of shares and in that event the name and address of the Guardian shall be given by the holders.
4. The nominee shall not be a trust, society, body corporate, partnership firm, Karta of Hindu Undivided Family, or a power of attorney holder.
5. Transfer of share in favour of a nominee and repayment of amount to nominee shall be a valid discharge by a company against the legal heir.
6. Only one person can be nominated for a given folio.
7. Details of all holders in a folio need to be filled; else the request will be rejected.
8. The nomination will be registered only when it is complete in all respects including the signature of (a) all registered holders (as per specimen lodged with the company) and (b) the nominee.
9. Whenever the Shares in the given folio are entirely transferred or transposed with some other folio, then this nomination will stand rescinded.
10. Upon receipt of a duly executed nomination form, the Registrar and Transfer Agent of the company will register the form and allot a registration number. This number and folio no. should be quoted by the nominee in all future correspondence.
11. The nomination can be varied or cancelled by executing fresh nomination form.
12. The company will not entertain any claims other than those of a registered nominee, unless so directed by a Court.

FOR OFFICE USE ONLY
Nomination Registration Number
Date of Registration
Checked by and Signature of Employee